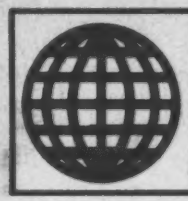

Daily Report
Supplement

Central Eurasia

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Monday
26 June 1995

Central Eurasia
SUPPLEMENT

FBIS-SOV-95-122-S 26 June 1995

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NOTICE: An * indicates material not previously disseminated in electronic form.

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Federal Assembly

Voting Record on No-Confidence Motion

MM2206094695 Moscow SOVETSKAYA ROSSIYA in Russian 22 Jun 95 p 1

[Unattributed report: "Vote of No Confidence in Chernomyrdin Government: Who Voted Which Way"]

[FBIS Translated Text] State Duma deputies today carried a vote of no confidence in the Viktor Chernomyrdin government. Two hundred forty-one deputies voted in favor of the government's resignation, 72 registered their confidence in the cabinet, and 20 abstained. For the no-confidence vote to pass, it needed 226 deputies' votes.

The following is who voted which way, broken down individually and by faction — for resignation (+), against (-), abstained (0), did not vote (*).

"Yabloko"

V.P. Averchev +

A.G. Arbatov +
G.S. Bondarev +
V.V. Borshchev *
A.G. Vasilyev +
M.K. Glubokovskiy+
A.G. Golov +
V.S. Goryachev +
I.D. Grachev +
O.G. Dmitriyeva +
M.M. Zadornov +
T.V. Zlotnikova +
S.V. Ivanenko +
V.V. Igrunov +
I.L. Lukashev +
V.P. Lukin +
A.Yu. Melnikov +
S.S. Mitrokhin +
A.Yu. Mikhaylov +
N.Ya. Petrakov +
A.I. Tsapin *
V.L. Sheynis +
P.B. Shelishch +
V.N. Shostakovskiy +
G.A. Yavlinskiy +
I.A. Yakovenko +
T.V. Yarygina +

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V.Ye. Balalayev +
A.M. Biryukov +
Ye.M. Bogdanova +
P.T. Burdukov +
Ye.V. Buchenkov +
S.N. Bystrov +
V.F. Vershinin +
A.Ye. Vorontsov +
V.V. Gukov +
A.S. Davydov *
B.N. Danchenko +
A.A. Dolgopolov +
G.T. Dyudyayev +
S.A. Yenkov +
P.V. Yefremov +
A.Kh. Zaveryukha -
N.V. Ivanov +
V.B. Isakov +
P.Ya. Kiriy +
I.Ye. Klochkov +
N.Ya. Kondakov *
N.S. Kotov +
A.T. Kochegura +
V.S. Krylov +
G.V. Kulik +
M.N. Lapshin +
T.I. Leta +
G.A. Medentsov +
V.V. Mikulin +
R.N. Mirsayev +
A.D. Mikhaylov +
V.A. Moroz +
A.G. Nazarchuk *
V.I. Naumov +
V.N. Plotnikov +
S.A. Ponomarev +
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A.G. Puzanovskiy +
V.P. Repkin +
I.P. Rybkin *
Yu.V. Sokolov +
N.A. Sukhoy *
T.P. Tokareva +
A.A. Turusin +
N.M. Kharitonov +
A.A. Chernyshev +
G.I. Churkin +
A.I. Yaroshenko +

"Russia's Choice" Bloc

Ye.D. Aypin -

G.A. Alekseyev *
A.L. Amelina -
P.G. Bunich -

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V.I. Golovlev *
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Yu.S. Gusman -
M.A. Danilov -
B.A. Denisenko +
A.M. Yemelyanov -
G.I. Zadonskiy -
I.I. Zaslavskiy -
V.V. Zelenkin -
B.A. Zolotukhin -
S.A. Kovalev *
V.N. Manannikov 0
P.A. Medvedev -
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F.S. Pashennykh +
S.S. Sulakshin +
V.L. Talanov +
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S.A. Glotov +
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Economic Issues

***Current Financial Situation Analyzed**

954E1102A Moscow DELOVOY MIR in Russian 14 Jun 95 p 4

[Article by A. Lusnikov: "Will the Ruble Regain Its Function as Measure of Cost? If Inflation Goes Down That Is Quite Possible"]

[FBIS Translated Text] The optimistic picture forming on the Russian financial markets at the beginning of this summer is being spoiled by the difficulty in explaining high indexes reflecting growth of consumer prices, or, in other words, rates of inflation. The unusual nature of the situation for most of the citizens consists of the fact that over several years of constant reforms we are prone to the false stereotype when between inflation and the rise of the dollar (consciously or subconsciously) not just an equal sign was placed, but probably the sign of identity as well (we say rise in the dollar, but we mean inflation). In the last year and a half there were only two exceptions to that simple rule: in January and October 1994. If one is to add that on both of these occasions the dollar soared, bringing happy moments to its owners who acquired ruble profit without any effort, the ignoring of a slower rise in the exchange rate by comparison with the rise in prices in the intervals between leaps is quite forgivable. The love of the dollar manifested by citizens of Russia becomes understandable, as does the resentment of the fact that this popular means of accumulation is being unjustly belittled by the authorities.

For the sake of fairness here it is necessary to note that monetary authorities conscientiously kept the dollar throughout all of May from an even greater decline. It is only now that the Central Bank has manifested a certain retreat from the policy of propping up the dollar. The dynamics of the market rate over the past week provide ground for some serious thought. During that period the dollar fell by 1.25 percent (to 4881 rubles to the dollar), but this drop covered two trading sessions (Monday and Friday). At mid-week, however, the exchange rate was static or even showed a slow rise, and that was despite

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the large-scale distribution of GKO (government short-term bonds) by the Ministry of Finance on Wednesday, which could have caused (but did not) a dumping of currency by banks for purchase of government bonds and a consequent drop in dollar quotations. It is possible that this fact shows that the process of dedollarization is not far from completion in the banking system. Whether that is so, however, is known only by the Central Bank, which engages in regulation of the exchange rate. It is not precluded that sharp drops in the exchange rate on the first and last days of the week are initiated by the Central Bank for the purpose of "showing the correct path" for commercial banks, which, for lack of sufficient thought, have already started aiming at a rise. If that was the specific goal, it is necessary to admit success: on Friday the exchange rate at the MFD (Interbank Financial House), determined by commercial banks, collapsed by up to 25 compared to that on the exchange.

Another inconvenience occurring as a result of the current growth of the ruble consists of the loss of its reserve currency function as a measure of cost. Economic theory teaches us that money must be a measure of cost. The ruble lost that function during the period of hyperinflation of 1991; it was replaced with prices in dollars and then in conditional accounting units (URE). At present the situation remains the same, but those who set prices in URE, which upon silent agreement, are still dollars, are suffering perceptible losses. It is time to change the agreement and consider conditional units, designating the cost of goods as our own Russian rubles, but no—the commodity content of the ruble continues to decrease and it is doing so quite rapidly. In this manner we are faced with a paradoxical situation. Not one of the monetary units being actively used in Russia is capable of performing the function of a measure of cost. The situation is aggravated by the unstable position of the dollar with relation to other world currencies. Not one expert is able to determine how the dollar to mark or dollar to yen correlation will be changing in the immediate future.

Returning to the rates of inflation as recorded by the State Committee on Statistics, let us note that in the last week of May they declined to 1.3 percent, which is a record index since the start of autumn of last year. Nevertheless, as repeatedly noted by different economists (including by those at the Ministry of Economics), Russian inflation stubbornly does not want to depart from the level of 8 percent per month. By way of an example, in Ukraine, where such a strong level of support does not exist, the level of inflation has not exceeded 5 percent for some two months. Experts, meanwhile, are unanimously predicting that in the summer prices will stabilize in Russia as well. The more distant future, however, is still unknown. The market, obeying the stabilization measures of the government, is lowering profitability both of short-term money instruments—the dynamics of INSTAR rates on MBK [interbank credits] with a term from a week to three months, as well as of instruments designed for the autumn period (such as GKO, KO , deposits, futures, etc.) are indicative. This decrease is much more substantial than last year; at the same time inflation was lower last year than this year. One must hope that the market, the building of which is the main result of the past few years, proves to be more clever than the pessimists and that the market forecast will make Russian economic stabilization a reality.

*'Expert' Economic Data Contradicts Government's Optimism

954E1096A Moscow PRAVDA-5 in Russian 2-9 Jun 95 No 3, p 2

[Article by Expert Services of the State Duma Committee on Economic Policy, the Russian Academy of Sciences, RAN, and PRAVDA-5: "Cry, Comrade Optimist! The Masters Have Time Like This"]

[FBIS Translated Text] Results of the first quarter attest to the continuing trends of a deep economic crisis, the recession in industrial production, the decline in real incomes of more than half the people, and the threat of increased unemployment in the coming months as a result of the economic policy conducted by the government.

According to official data, industrial production declined by 4.5 percent in the first quarter of this year compared with the same period last year. At the same time, the production decline in the processing industry was twice as high: 9 percent. The production decline was especially significant in sectors turning out goods in high demand: consumer goods production declined by 15 percent (including up to 56 percent for consumer durable goods). The situation taking shape in agriculture is particularly difficult: purchases of livestock products decreased by more than 30 percent in the first quarter. At the same time, there is a distinct trend of increasing deindustrialization against the background of accelerated disintegration in the processing industry, some stabilization is under way in the raw material sectors oriented toward exports, and restoration of the colonial economic structure is being reinforced.

In the first quarter of this year, a sharp deterioration was seen in the basic indicators of economic potential reproduction. There has been a sharp decline in the indicators for end product production.

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In the situation that has taken shape, while there outwardly appear to be relatively favorable indicators in implementing the budget, there is actually a sharp reduction in budgetary outlays which were not planned in advance. For this reason, it is especially painful for the sectors being financed by the state: education, public health, science, and the defense industry.

As a result of this policy, the real incomes of a large part of the population are declining sharply: real wages have dropped by 31 percent and real pension payments have dropped by 14 percent compared with the same period last year (with respect to the preceding period, the recession figures were 27 percent and 12 percent, respectively). There has been a sharp decrease in actual monetary incomes of the public as a whole—by 23 percent compared with the preceding period and by 4 percent compared with the same period last year. This has led to the point that the number of persons with incomes below the subsistence minimum has increased to 45 million, or 30 percent of the population at present.

By assigning primary importance in its policy to the struggle against inflation, the government is disregarding such obvious problems as improvement in the structure of the money supply, reduction of nonpayments and circulation of foreign currency, instability in the pace of money circulation, the inflationary effect of the production recession, and the disintegration of production cooperatives in the course of the privatization campaign.

The situation is intensified by the steady decline in profitability in the field of physical production; with continuation of the policy this year, industry profitability will drop to 7 percent and agriculture profitability will fall even lower.

Social tension will be aggravated further as a result of this. The increase in the number of unemployed will not be 2 million, as stated in the government forecast, but will approach 5 million.

Results of the first quarter confirm our most disturbing expectations: sharp intensification of the trends leading to impoverishment of most of the people, putting them below the subsistence minimum, with one-third of the people below the level which provides for maintenance of normal nutrition, and unemployment increasing to 5 million. The situation taking shape in the non-production sphere is especially alarming. Those employed in education and public health, culture, science, and the defense industry have been doomed by the budget adopted recently which provides for an average monthly reduction of 5 percent in real incomes.

***Control Over Property Assessments, Taxation System Debated**

954E1096C Moscow SEGODNYA in Russian 6 Jun 95 p 3

[Report by Natalya Olenich: "The Ministry of Finance Wants To Take Property Assessment Under its Control"]

[FBIS Translated Text] Participants in the recent conference in the State Duma devoted to property assessment problems had many different views about the kind of property assessment system Russia should have, but they displayed surprising unanimity in their view that "officials cannot be given complete control by any means." Vladimir Grigoryev, one of the authors of the draft law "On the Principles of Assessment Activity in the Russian Federation," apparently hoping to consolidate the ranks of independent assessment experts, warned: "Unless we create a system such as this ourselves, the officials will do it for us." These officials, judging by all accounts, do not intend to allow the work of assessment so important to the state to be put in the hands of independent experts.

The Ministry of Finance unquestionably is most interested in developing a system of property assessment based on market approaches. As of today, according to certain data, potential property tax arrears by the state (without taking land tax losses into account) are on the order of 24 trillion rubles [R]. Ministry of Finance officials explain this by lack of control over the market value of property. Property, including when the taxes are calculated, is assessed by the Bureau of Technical Stock-Taking in the old way—in accordance with the residual (inventory) value. No stock is taken and there is no register to make it possible to judge the true value of the property subject to taxation. In the opinion of Dmitriy Ignatyev, secretary of state of the Department of Tax Reforms, "the land and property taxes today do not reflect the improvements which have been made in the economy."

The situation, which is serious even this year, threatens to become simply catastrophic in the future unless a unified state system for the market assessment of property is worked out. The draft budget for 1996 provides for receipts of 5 trillion from the land and property taxes, which should replenish the local budgets. (Though far from all organs of local self-government are anxious to assume the burden of collecting such taxes, preferring as before to ask the center for additional subsidies and petition for an increase in the norm for deductions from federal taxes for local budgets. The Ministry of Finance's control over the financial activity of local organs, however, is still very weak.)

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In order to resolve the problem of receiving these taxes at their full value, Mr. Ignatyev believes that it is necessary to introduce institutions under the organs of state administration, including in local areas, to assess property in accordance with a single method based on its market value. The most suitable organs where such institutions may be established are the tax inspectorates, in the view of the Ministry of Finance official, but establishing some kind of special new structures, not to mention a common federal organ for property assessment as suggested by certain private assessment experts, "makes no sense," in Ignatyev's words. In his opinion, there is no single boss for the tax system in Russia today. The functions of its regulation are scattered among several departments: the Ministry of Finance, the State Tax Service, the Central Bank, and the Department of Tax Police, which significantly reduces the efficiency of financial control, "which is in a very poor state."

The problem of property assessment is found first in the sphere of financial control. For this reason it is clear there can be no discussion about enlisting independent assessment specialists in property assessment for taxation purposes. This does not take place in any developed country, according to the secretary of state of the Department of Tax Reforms. Independent assessors have been called upon to protect the interests of their clients, who naturally would like to pay the lowest amount of taxes possible, but only state organs can protect the state's interests.

In order to avoid accusations of corruption (which the independent experts stress in particular, maintaining that their assessments would be much more objective), "we can use the method of analytical assessment being applied in the United States," when the official does not deal with a specific client and makes an assessment based only on the documents presented.

On the whole, in Ignatyev's opinion, the situation is so critical that "it is time to shift from scientific discussions about ways and means of assessing property to the real business of providing income for the budget from taxes on land and property." There is no time to wait until a law is passed on assessment activity. Moreover, Ignatyev expressed doubt that "it will be passed in the next two years," and even if a law is passed, it will not solve their problems. In his opinion, this has to be examined at the same time as a law on real estate, one which defines the types and introduces a real estate register.

Generally speaking, it makes hardly any sense to pass an "empty" law when there is no state market assessment, experience, or personnel. Issuance of a presidential edict on the principles of a market assessment for property and a provisional statute on assessment which details points in the edict would be much more practical. The Ministry of Finance could assume responsibility for drafting such a statute, but for now, this department "does not have the appropriate powers or authority."

A law on real estate drafted at the Ministry of Finance's initiative and submitted to the government a year ago proposed that real estate be based on a market assessment, but the law still has not been considered. Today, in Ignatyev's words, the financial department "is not simply suggesting, but shouting about the need to introduce a market assessment of property." It is possible that this shout will be heard, since the 1995 budget is based on important changes in the tax system and in particular on increasing the role of the property and land tax in shaping local budgets. In any event, this seems more likely than the hope cherished by independent assessment experts for creating some kind of state-public organ to assess Russian property.

*Creation of Financial-Industrial Groups Assumes Various Forms

954E1096D Moscow SEGODNYA in Russian 6 Jun 95 p 8

[Article by Olga Romanova: "Financial-Industrial Groups: If There Is No Law, There Is No Problem"]

[FBIS Translated Text] The intensive struggle between proponents and opponents of the formation of financial-industrial groups in Russia is coming to a logical conclusion; the problem has resolved itself. Officially registered FPG's [financial-industrial groups] (there are 12 of them) are working no better than those that are unregistered (there are over 100 of them). The two competing draft laws on FPG's worked out by the Goskomprom [State Committee for Industrial Policy] and the Federation Council Committee on Economic Reform Questions have driven to exhaustion both the drafters and those to whom the draft law is addressed for some time. The government, which was propagandizing formation of the FPG's as far back as the beginning of the year, evidently lost interest in promoting their legal registration after the appropriate program was passed (Decree No. 48). The government economic strategy for development of the country in the 1995-1997 period supports the course of the FPG's conditionally by approving the process of capital concentration, while at the same time it is apprehensive about monopolization and preservation of inefficient production facilities. According to Minister of Economics Yevgeniy Yasin, the government is not giving sufficient attention to the FPG's since Russia is only entering a depression and "there is still time to think about it."

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Since discussion of the FPG concept was begun, it has enjoyed considerable support from "the red directors," and a year ago the participation of banking capital in the work of corporations was viewed as an annoying but vitally essential condition. The unjustified emphasis on industrial potential led to the awkward position of the "Sokol" FPG (in Voronezh); the financial nucleus of the group—the "Energiya" Bank—had its license recalled. A number of other FPG's of "the first callup," mainly specializing in the defense industry, are experiencing serious difficulties as a result of the bank's weakened position in the group.

The trends have changed quite rapidly, however, and now we can speak about several methods of forming an FPG: the purchase by bank holding companies of controlling blocks of stock in enterprises ("Menatep," "Rossiyskiy Kredit"); the combination of several large enterprises and banks in an FPG (the Volga-Kama FPG and "Ruskhim"); the formation of transnational corporations within the CIS for use of foreign property, infrastructure, or economic expansion ("Mezhdunarodnyye Dvigateli" and "Slavneft"); and legalization of relationships between the government and banking groups ("Interros"-ONEKSIMbank-"Norilskiy Nikel"), as well as the formation of an FPG that is not legally registered with the unannounced participation of foreign capital (major London traders and domestic nonferrous metallurgy enterprises). Let us point out that together with these processes, the officially unregistered but nevertheless classic FPG's that were formed a relatively long time ago—Gazprom, Lukoyl, the Alfa Group, etc.—are being developed intensively as well.

Centripetal corporative tendencies which also come close to the definition "formation of an FPG" have also been seen lately in large, relatively stable, and completely independent companies. Not long ago the "Noyabrskneftegaz" AO [Joint-Stock Company], the Omsk NPZ [Oil Refinery], and the Neftekhimbank announced their intention to form something like an FPG, hinting at the establishment of a new petroleum company. In this case an important position in the project was given to the Paribas Bank, with which the NPZ had concluded a credit agreement with the right to accumulate payments from foreign consumers. Naturally, the Omsk NPZ is hoping for direct investments by Paribas.

So all the possible variations have been used in the concentration, integration, and mutual penetration of bank and industrial capital (except one—the one most widespread in the world, so-called "mergers and takeovers," but in the banking field the "mergers and takeovers" have already begun, so we may expect a carryover of experience to the nonbanking sphere). Practically any association such as this may be defined by the term "financial-industrial group," which does not provide any substantial benefit in the absence of normal corporate law. Moreover, in light of the proposal of a banking consortium, most of the economy will be represented by one large FPG.

Evidently a different approach must be used for all these structures, without putting completely different associations with only one common feature—concentration of capital, which is more than natural in progressive economic development—under one law and one term. To paraphrase a well-known expression about the lack of a law on FPG's, we do not have to worry: "If there is no law, there is no problem."

*Arbitration Court Official on How To Declare Bankruptcy

954E1119A Moscow ROSSIYSKAYA GAZETA in Russian 16 Jun 95 p 15

[Article by Olga Nikitina, consultant of the Russian Federation Supreme Court of Arbitration: "A Case of Insolvency"]

[FBIS Translated Text] **The Supreme Court of Arbitration explains the procedure for instituting "insolvency (bankruptcy)" proceedings against legal persons and individual entrepreneurs.**

In order to file such applications with the arbitration court, it is necessary that the parties take steps for the direct settlement of this matter.

With respect to creditors' applications to have debtors declared insolvent (bankrupt), a special procedure for pre-arbitration settlement is provided for by law.

In accordance with Paragraph 1 of Article 6 of the RF Law on the Insolvency (Bankruptcy) of enterprises, in the event of the nonfulfillment by a debtor of obligations with respect to payment for goods (work or services), a creditor has the right to send to the debtor by registered mail a notice with notification of service, which should contain a demand that he fulfill his obligations within a week's time of the date of its receipt, as well as a warning about the fact that, in the event they are not fulfilled within the course of the indicated time frame, the creditor will file an application with the arbitration court for the institution of insolvency (bankruptcy) proceedings against the organization (entrepreneur).

Whether or not a creditor receives a response to the notice is no impediment to the filing of an application with the arbitration court. The only way to prevent the filing with the arbitration court is to satisfy the creditor's claims and to transfer the entire amount of the debt.

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In order to file with the arbitration court, it is necessary to pay a state duty. In accordance RF Presidential Edict No 1920 of 17 September 1994 on the State Duty, applications to have enterprises declared insolvent (bankrupt) are to be paid by a state duty in the amount of 20 times the minimum wage. Proceeding on the basis of the common principle (Article 65 of the RF Arbitration Procedural Code), an applicant may petition for a deferral of or an installment plan for the payment of the state duty.

In the event that an application to have a debtor declared insolvent (bankrupt) is rejected, the state duty costs will be borne by the creditor, except in instances when the case arose as a consequence of a debtor's improper actions.

When an application is filed with the arbitration court for the institution of insolvency (bankruptcy) proceedings, the requirements laid down by law for the indicated applications should be observed.

The list of an application's obligatory requisites is as follows:

— the amount of a creditor's claims which cannot be satisfied;

— information about the form of ownership and the subject of ownership (this is established from the constituent documents);

— and the reasons why the debtor considers it impossible to fulfill his obligations (the debtor's liabilities exceed his assets, the unsatisfactory structure of the balance sheet and other items).

A debtor's unsatisfactory balance-sheet structure means that state of a debtor's assets and liabilities when the timely fulfillment of obligations to creditors cannot be ensured through the assets in connection with the inadequate degree of liquidity of the debtor's assets.

A set of criteria for the determination of an unsatisfactory structure of a balance sheet of insolvent enterprises has been developed and is being used (RF Government Decree No 498 of 20 May 1994 on Certain Measures for the Implementation of the Legislation on the Insolvency (Bankruptcy) of Enterprises).

The indicators for the assessment of the satisfactoriness of a debtor's balance-sheet structure are:

— the current liquidity ratio — KTL [CLR] (at the end of a reporting period, it should exceed 2). The CLR is defined as the ratio of the actual value of the working capital available to an enterprise in the form of production reserves, finished output, cash assets, accounts receivable and other capital assets to the enterprise's most pressing liabilities in the form of short-term bank credits, short-term loans and various accounts payable;

— the equity capital security ratio — the KOSS [ECSR] (it should be more than 0.1). The ECSR is defined as the ratio of the difference between the amounts of the sources of equity capital and the actual value of the fixed capital and other non-capital assets to the actual value of the working capital available to an enterprise in the form of production reserves, unfinished production, finished output, cash assets, accounts receivable and other capital assets;

— the solvency restoration (loss) ratio — the KVUP [SRLR] (it should have a value of more than 1.0). The SRLR is defined as the relationship of the current liquidity ratio to its established value. The calculated current liquidity ratio is defined as the sum of the actual value of the current liquidity ratio at the end of the reporting period and the change in the value of this ratio between the end and the beginning of the reporting period in terms of the established solvency restoration (loss) period.

Based on the above-listed theoretical ratios, a conclusion is drawn about the degree of liquidity of an enterprise's assets and whether or not the enterprise is insolvent.

An application may also be submitted in the expectation of insolvency (bankruptcy).

The following documents should be appended to the application:

— a list of creditors and debtors with a breakdown of their accounts receivable and payable (along with their mailing addresses);

— an accounting balance sheet or documents which substitute for it;

— documents which confirm the sending of a copy of the application with all the appendices to the creditors:

— a copy of the payment instructions, which testifies to the payment of the state duty, with the appropriate bank notations on the listing of the duty as federal budget revenue;

— and other documents which confirm the circumstances, on which the application is based (agreements with creditors, according to which the deadline for the fulfillment of the monetary obligations has arrived, agreements with the contracting parties, which testify to the existence of an account receivable, bank documents on the lack of funds in the settlement account and others).

The arbitration court does not return an application without considering it, if the applicant does not submit an

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accounting balance sheet or documents which substitute for it, since, in the event that a debtor does not submit within the course of 15 days from the date of submission of an application the above-mentioned documents, the court orders the compiling and submission of an accounting balance sheet or documents which substitute for it to an independent auditor at the debtor's expense. The debtor deposits in advance the amount subject to payment to the auditor into the court's deposit account.

A petition may be appended to an application on the implementation of external control of an enterprise's assets or their seizure. The appropriate petition may be contained right in the text of the application.

An application submitted by a debtor cannot be withdrawn by him. The arbitration court examines the case on its merits.

There are special features during the institution of proceedings to have a debtor declared insolvent (bankrupt) based on an application of his creditor. The creditor may file with the arbitration court in the event of the debtor's nonfulfillment of obligations with respect to payment for goods (work or services), with the exception of a refusal to pay for reasons stipulated by legislation or an agreement, upon the expiration of 3 months from the date of the occurrence of the deadlines for the fulfillment of the indicated obligations and after the debtor has been sent by registered mail a notice with notification of service.

An application to the arbitration court is sent upon the expiration of a week from the date the debtor receives the notice.

The notice contains a demand that, within a week from the date of its receipt, the debtor fulfill his obligations and a warning that, in the event of his nonfulfillment within the course of the mentioned time frame, the creditor will file an application with the arbitration court for the institution of insolvency (bankruptcy) proceedings against the organization (entrepreneur).

The following requirements are necessary for a creditor to register an application: the application shall be submitted in writing, giving the debtor's name and his address and documents should be appended to it, which confirm the claims on the debtor, which were not satisfied in accordance with the creditor's notice, as well as the notification of the serving of notice on the debtor and confirmation that a copy of the application with its appendices were sent to him and proof of payment of the state duty. The application to the arbitration court shall be signed by an executive or a person acting on his behalf, giving his position.

Failure to observe these requirements will lead to the return of the creditor's application without it being considered.

In the application, the creditor may petition for the implementation of external control of the debtor's assets or their seizure.

The arbitration court examines a case of the insolvency (bankruptcy) of an organization (entrepreneur) on its merits even in the event that, on the day of the examination, a debtor repays the debt to the applicant creditor completely or partially. Thus, the satisfaction of the applicant creditor's claims by the debtor after the instigation of the proceedings is not grounds for stopping the proceedings or for rejecting an application to have a debtor declared insolvent (bankrupt).

A creditor has the right to file an application for the institution of insolvency (bankruptcy) proceedings against a debtor, even though there is already a decision by the arbitration court on a property dispute between the same parties, which has not been executed because of the lack of cash assets in the debtor's account. Consequently, a creditor files with the arbitration court either an application for the institution of insolvency (bankruptcy) proceedings or a petition requesting the seizure of the debtor's assets (a letter of the Russian Minyust [Ministry of Justice] and the RF Supreme Court of Arbitration of 6 July 1994, No 06-73/54-94 and No S1-7/03-476).

There are no special norms in the law about the indebtedness of a debtor based on credit agreements concluded with banks. Specifically, the obligation to return the amount of credit and to pay the interest established in the agreement for the use of the credit. At the same time, it is obvious that this kind of amount falls under the concept of "indebtedness with respect to payment for services." This is why banks, having extended credit, have the right to file with the arbitration court an application to have credit agreement debtors declared insolvent (bankrupt).

In addition, it is necessary to keep in mind the following, that, only when a debtor bank's license to conduct banking transactions is revoked by the Central Bank of Russia, do a commercial bank or other credit institution, creditors or the procurator have the right to file with the arbitration court an application to have a debtor bank declared insolvent.

There have also been no doubts that, when a debtor organization is in liquidation, even the work of the liquidation commission, in and of itself, does not deprive an applicant creditor of the right to raise the

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matter of have a debtor legally declared bankrupt when the external signs of bankruptcy are present.

At the present time, when an application has been filed with the arbitration court for the institution of insolvency (bankruptcy) proceedings against an organization (entrepreneur), penalties for a violation of agreement or other obligations may not be included in the amount of the indebtedness.

Several creditors may also act jointly as an applicant, if the claims of each of them are separately less than the necessary amount established by law for the institution of such proceedings.

***Growth in Production, Sale of Counterfeit Currencies Noted**

954E1088B Moscow NALOGOVAYA POLITSIYA in Russian Jan 95 No 3, (signed to press 31 Jan 95) p 8

[Article by Viktor Doroshenko, chief expert of the Central Bank Main Administration for the City of Moscow: "What Does a Counterfeit Dollar Smell Like?"]

[FBIS Translated Text] The number of crimes connected with the production and sale of counterfeit currency and state securities is increasing substantially in Russia. Our concerns about the appearance of counterfeit bills have increased with the wide circulation of U.S. dollars in recent years. Criminals are now using modern technology to mass-produce the "fakes." They have organized in groups and specific roles have been assigned. They are acting more and more blatantly and audaciously, and the profit being made from their "business" is considerable.

The degree of organization and the criminal professionalism of the counterfeiters have increased markedly. In a number of cases, they are establishing international ties, dividing the spheres of criminal activity among themselves, and developing contacts with individuals dealing in drugs and contraband. More and more frequently, terrorist organizations and insurgent movements pay for the weapons being delivered with counterfeit dollars. There are reports that even the war in the Balkans is being financed with them. "Our" American dollars, the ones "produced here" which were acquired in Moscow commercial banks, have appeared in other countries as well: in Germany and Hungary.

Over the past 5 years, foreign exchange valued at more than $500,000 has been withdrawn from circulation in the country's territory. We can only guess how many more counterfeits are floating freely.

In order not to become the victim of fraud, we must know several basic rules word for word. For example, U.S. dollars are vulnerable because the banknotes issued in 1928 are also in circulation, and of course these "old bills" are not as protected as the current ones. After 1990, additional degrees of protection were incorporated in the banknotes: microprinting around the president's portrait, and a metal strip with an inscription was added to the paper. In addition to the special paper, which contains silk threads and is produced by a distinctive process, as well as the use of special durable dyes which are not subject to fading, the dollar banknotes have a number of marks which are present only in specific banknote series and which cannot be copied, even by the most technically advanced means. They cannot be produced with any degree of quality on the "Xerox" color copiers; more often they are produced by typography. When the counterfeit is produced by offset printing, it has several distinguishing features which make it possible to identify right away. First of all, the forehead of the president in the portrait is completely white, whereas on the genuine banknote we see various halftones and many degrees of shading in the light.

There are now numerous detectors which analyze the magnetic properties of the pigment used in making the banknote. Certain counterfeiters are already making ink which is so similar to what is used in the genuine banknotes that many detectors miss this when checking for individual "homemade" bills. A detector made in America does not have this shortcoming. Outwardly it looks like a felt-tip pen. A banknote is verified by the chemical composition of the paper. If a mark on the banknote remains yellow in color, the bill is genuine, but if it darkens to a brown shade, the currency is counterfeit.

Close attention to the simplest feature is also necessary. Purely psychologically, people look first at the banknote's denomination but fail to take the portrait into consideration. The counterfeiters also take advantage of this by skillfully substituting certain denominations with others, turning $5 into $50 and $10 into $100. After all, it is not very hard to explain that Jefferson is depicted on the $2 bill and Lincoln, Hamilton, Jackson, Grant, and Franklin are depicted on the $5, $10, $20, $50, and $100 bills, respectively. There is also the concept of a "superdollar." It was introduced by Interpol and means a counterfeit which is practically indistinguishable from a genuine banknote. It is identified by extremely minute errors in appearance which only the experts know.

As far as an answer to the question in this article's title, it should be said that it smells like serious criminal responsibility. It should be pointed out that the International Convention on Banknote Counterfeiting was concluded in Geneva back in 1929, and our country joined it in 1932. The convention establishes

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the basic principles in the struggle against counterfeiters and stipulates the punitive measures for individuals engaging in the production of counterfeit currency, regardless of whether this affects the national monetary system or the monetary systems of other countries. Under Article 87 of the UK [Criminal Code] of Russia, production for the purpose of sale, as well as the sale of counterfeit treasury notes (actions conducted as a small-scale industry) is punishable by imprisonment for 10 to 15 years and confiscation of property.

***Development of Russia's Treasury Bond Market Discussed**

954E1088D Moscow FINANSOVAYA GAZETA in Russian Jun 95 No 23, (signed to press 2 Jun 95) p 4

[Article by Yuriy Korsh, manager of the Dealer Operations Division, "Glavstroyinvest" Financial Company: "In the Treasury Bond Market"]

[FBIS Translated Text] Treasury bonds were issued by the Russian Federation Ministry of Finance in the fall of 1994. When the KO [treasury bond] circulation was begun, investment and finance companies held the leading position in this segment of the financial market of St. Petersburg, owing to the wide range of services being provided, organized ties with authorized depository banks, and developed data analysis for efficient decisionmaking. After six months of working with treasury bonds, it is possible to draw certain conclusions and assess the prospects for development of this segment of the market for debt instruments.

On 10 March 1995, the Russian Government and the Central Bank signed a joint statement on economic policy. It confirmed the complete discontinuation of direct loans to cover the budget deficit and the granting of centralized credits. It provides for the refinancing of commercial banks only through auctions, inventory of bills of exchange, collateral loans, and REPO [sale and repurchase agreement] transactions with state securities issued under market conditions.

The latter may influence the prospects for development of the KO market. The statement actually confirmed the "unmarketability" of the mechanism for issuing treasury bonds and announced a reduction of the net volume of outstanding bonds in April 1995, limiting their circulation to the first six months of 1996. Nevertheless, the probable volume of the treasury bond emission in 1995 will be 18 trillion rubles [R], of which R14 trillion will go toward repaying the preceding issues, and the KO market will be in existence for almost another year. For this reason, it continues to be important to review the experience gained and assess the prospects for treasury bonds or new financial instruments that are similar to them.

In analyzing the results of KO distribution, the Ministry of Finance notes the need to eliminate sectorial restrictions and bring about market transparency to provide all investors who so desire with the opportunity to conduct transactions with these financial instruments, to reduce the number of obligatory endorsements, and to extend the periods for repayment. The interaction of treasury bond holders and market operators with authorized depository banks has been one of the burning questions in the functioning of the market which influence its development. The lack of standard requirements for depository banks and their concentration in Moscow, which is typical for the existing infrastructure of the Russian market, have led to the point that the Ministry of Finance has begun looking into the possibility of organizing a system of sub-depositories to have an obligatory contract with an authorized depository of the Ministry of Finance.

The largest problem which the Ministry of Finance has encountered is the fact that the income yield of treasury bonds is higher than other financial instruments. Income is calculated for a bondholder at a rate of 40 percent annually or tax exemptions are granted. The opportunity to sell treasury bonds in the secondary market at a discount, however, even without the required number of endorsements, in order to reduce the budget deficit of enterprises and organizations, finance the reproduction cycle, and reduce the incurred debt to other enterprises in other sectors and for creditors, has created a certain level of supply. Of course, the treasury bond market still continues to be out of balance, and demand (especially for the "long series") obviously exceeds the supply, but in the initial stage of its development to the first repayment in February, the coordinated policy of the largest operators provided for an income yield from treasury bond transactions at a level of 400 to 600 percent per annum.

Tax exemptions provide even higher effectiveness in the income yield indicator. This is confirmed by results of the Ministry of Finance's treasury bond repayment, about half of which are in the form of federal tax exemptions and deferred payments to the budget, enabling enterprises to adjust their debts without penalties and fines. The profitability of utilizing treasury bonds to obtain tax exemptions in February and March reached a rate of 1,000 percent annually.

Under these conditions, the Ministry of Finance's actions have been aimed at reducing the profitability of transactions which make use of the principal financial instruments. Thus, for example, the fact that insurance

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companies and pension funds are authorized beginning in 1995 to work with treasury bonds as holders under the condition that they will be the last in the chain of obligatory endorsements has sharply increased demand and reduced the profitability accordingly.

The market value of a treasury bond, like any other financial instrument, is shaped under the influence of such basic parameters as the amount of the income yield of other basic financial instruments in comparison with the income yield of treasury bonds, the level of risk determined by investors individually, and the nature of supply and demand.

The risk is determined by possible delay in repayment of the treasury bond. Until now, the Ministry of Finance has punctually carried out its commitments, but it has not given a guarantee of repayment on the date they were made as set forth by instructional letter No. 140 of 21 October 1994. In this case, the actual income yield may be reduced significantly.

The demand varies for different series of treasury bonds. The treasury bonds with a repayment date of up to two months are utilized mostly for short-term investments, and for this reason, the profitability of transactions with them is on a level with the income yield of other instruments in the state securities market. Operators in the treasury bond market consider this level to be the weighted average income yield of GKO [state treasury bonds].

Treasury bonds with long repayment periods are utilized mainly to obtain tax exemptions and settlements with subcontractors. Clearly, repayment of debts owed to suppliers is a priority direction for the use of treasury bonds. Inasmuch as repayment is made at the nominal value, it is advantageous for enterprises to buy the treasury bonds in the secondary market at a discount and this increases demand even more.

The current situation in he treasury bond market indicates that the profitability of transactions with bonds having a repayment period up until mid-June is somewhat higher than with GKO's; those with a repayment period in July and August have roughly the same income yield; those with long repayment periods have a yield lower than GKO's.

One of the reasons for the situation which has taken shape is the uncertainty of the procedure for reservation of bank debits. The sale of treasury bonds by banks, or at least their inactivity in the market for debt instruments, has resulted from the need to mobilize funds. This formally confirms the sharp increase in offers by the "Glavstroyinvest" Financial Company in early May to purchase treasury bonds, but we cannot speak of this as a trend that has developed. Despite the "non-market" nature of the treasury bond issue, this financial instrument follows the laws of the market, and equalization of profitability with the GKO may be assumed. We now see a decline in the profitability of the "short" series, not only because of the trend of equalization in the market value of basic financial instruments, taking their temporary comparability into account, but because the period for their repayment, planned in May and June, is getting closer. At the same time, we should expect a slowdown in the increase in market value of the "long" series.

Successful operation in the treasury bond market is determined mainly by the full range of services provided to clients. Experience demonstrates that no less than half of the transaction conditions differ from clients' initial requirements in accordance with testimonials about what is best for them. Each one of them is individual in nature and takes into account the planned flows of payments, accountability requirements, and the enterprise's financial status.

As a rule, enterprises entering the market for treasury bonds, both to sell the securities belonging to them and to obtain tax exemptions, make a comparison of transaction conditions solely according to the indicator of market value. In fact, a well grounded decision should be prepared.

For example, small and medium-sized businesses make practically no use of treasury bonds to obtain tax exemptions because the nominal value of a treasury bond is not always adequate for the amount they require. In addition, purchase of a small block of treasury bonds (R100 million to R500 million) is substantially more expensive (3 to 5 percent) than quotations which have taken shape in the secondary market. Under these conditions, splitting up the treasury bonds makes it possible to reduce the difference in rates which occurs in purchasing small blocks.

Another example is obtaining credit under the security of treasury bonds whose individual nature is even more clearly defined. Experience shows that credit may be granted in a range from 50 to 100 percent of the nominal value of a treasury bond, but the upper limit, as a rule, may be obtained from an authorized bank which is the depository of a specific issue. Arbitrage transactions, including with the use of VVZ [unidentified] and GKO bonds, taking into account financial companies' established relations with the loan departments of authorized banks, facilitate the acquisition of loans. Calculations developed especially for enterprises which are "depending on their card files" are being used to reduce incurred debt, deal with nonpayments, and many other factors.

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Thanks to their high liquidity, treasury bonds have become multipurpose in nature and unquestionably have regenerated the Russian market for debt instruments.

In implementing the concept of a strict financial policy in 1995, which provides for payment of half the budget deficit by issuing state securities, domestic borrowing will become a priority direction in financial policy.

For this reason, the Ministry of Finance's intention to extend the periods for circulation of financial instruments and thereby restructure its indebtedness appears to be logical. A reduction in the number of treasury bond endorsements is being requested for many sectors. Market transparency may be achieved and standardization of requirements for registration of transactions may be reached by establishing a single depository based at the treasury, and territorial administrations of the Central Bank and commercial banks and their local branches could be used in the first stage.

Specific commitments by the Russian Government to the IMF, reflected in the joint statement with the Central Bank mentioned previously, make it possible for us to assume that the experience gained in issuing treasury bonds will be utilized in distributing new bonds for federal loans, and the general conditions for their issuance have already been approved.

***Basic Provisions of Draft 1996 Budget Assessed**

954E1088C Moscow DELOVOY MIR in Russian 8 Jun 95 p 4

[Article by DELOVOY MIR political commentator Miroslav Buzhkevich: "The Ruinous Race for Incomes"]

[FBIS Translated Text] **The principal directions for budgetary policy in 1996 have been worked out in the Russian Ministry of Finance. The fact is very noteworthy. The appearance of such a document will help to prepare and adopt the federal budget for next year by no later than this November, which will return the country's financial life to a normal routine.**

The authors of the directions are optimistically evaluating the positive improvements in the economy taking place this year as the result of a moderately strict monetary and financial policy. They believe that the production recession is ending, that the inflation rates are decreasing, and that financial stabilization can be expected by July and August.

The draft federal budget for 1996 will also be developed on the basis of these factors. In order to finance its deficit, it is planned to use only market methods of borrowing funds from domestic and foreign sources. It is proposed to limit the attraction of loans from international organizations and credits from foreign states. Hence the conclusion that the budget deficit will not become a source of inflation.

The main directions in monetary policy have also been determined. According to the forecast, the prime rate next year will be 35 to 40 percent. Russia's Central Bank will gradually cease to cover the overdue debts of commercial banks with new centralized credits. Oversight of transactions by these banks will be strengthened and monitoring of their adherence to economic standards will be reinforced.

Credit auctions, inventory of bills of exchange, and collateral loans will become the principal instruments of monetary regulation. The TsBR [Central Bank of Russia] and the Ministry of Finance intend to jointly coordinate the transactions with state securities issued under market conditions.

The current system of free currency exchange is being retained. It will have to be substantially improved. The TsBR will limit actions by monetary organs in the currency markets mainly by operations to smooth out exchange rate fluctuations. According to forecasts, the ruble's rate of exchange with the U.S. dollar will be 6,000 to 1 next year.

The goal has been set, with the help of an efficient monetary policy aimed at stopping the production recession and supporting factors for economic growth, of finally suppressing inflation and limiting its increase to 1 percent per month.

Ministry of Finance officials are confident that improvement in the economy's development this year, as well as an increase in the flow of investments, will create the opportunities for the start of a production increase in 1996. According to estimates by the Ministry of Finance and the Ministry of Economics, the rate of increase in the actual volume of Russia's gross domestic product next year will be 98 to 102 percent compared with the current year. The nominal amount of the GDP in 1996 will reach nearly 1.8 quadrillion rubles [R].

Reduction of the budget deficit will take place at the same time, but the conditions have not developed yet to reduce it drastically. All the same, Ministry of Finance specialists believe that the federal budget deficit will not exceed 4 percent of the GDP, or R76 trillion. Income from the emission of all types of securities valued at R40 trillion will become the sources of financing the deficit. Next year the state will gradually abandon the "short-term" securities and begin issuing them for a period of up to 3 years, which will bring in substantially more profit.

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In addition, the federal budget deficit will be paid with loans from international financial organizations totaling R23.4 trillion, as well as from other sources.

For the moment, let us move away from this brief summation of the directions of budgetary policy for 1996, and let us try to assess the feasibility of the tasks incorporated in them. The document's authors, realizing that successful realization of the program depends to a large degree on positive changes in the country's economy this year, express confidence in their almost fatal inevitability. A Goskomstat [State Committee for Statistics] report on results of the work of Russia's national economy in the first months of this year also support such a conclusion. It states that the volume of production this May was a full percent (!) higher than in May 1994.

In fact, reports are now appearing in the press about the successful work by certain enterprises in increasing production and turning out items and commodities capable of competing in the world market. This is gratifying, but assertions that the recession has been overcome are premature, in my view. There are only individual shoots of such a trend, but not a trend itself. Many of the largest machinebuilding, chemical, textile, and other enterprises continue to be idle as before. The structural reorganization of production, which was discussed in the first days of the market reform, is still at the starting position, and if it takes any steps, they are timid ones. This is apparent in the slow rates of conversion at enterprises of the VPK [military industrial complex]. The same may be said of the frequent cases of stoppage and closure of the shareholding associations, plants, and factories which have not been able to change their production specialization and turn out goods which enjoy high demand in the market.

Continuation of the policy of obtaining maximum incomes from the sale of state securities is reason for uneasiness as well. Of course, no one ventures to deny the importance of such a source in paying off the budget deficit, but it should be used sensibly, within reasonable limits. If the state becomes involved in speculative "games," it may take no notice of how it is being bankrupt. Moreover, attracted by the chance of making large incomes quickly, many entrepreneurs prefer to purchase a GKO [state treasury bond], not to invest in production.

The status of inflation, however, is reason for particular concern about realization of the socioeconomic measures planned for this year. In January and February, cheerful voices were heard to say: it is possible to provide for a monthly level of 1 to 2 percent by December. They are not talking about this today. Even the extreme optimist A. Chubays is now "guaranteeing" 4 to 6 percent, but it is unlikely that such a level of inflation will be reached because it is not declining but increasing. According to Goskomstat data, consumer prices rose by 2.4 percent in the week of 16-22 May alone. According to the simplest estimates, the rate of inflation for May as a whole was no less than 8 percent.

Nevertheless, these are still minor factors. New customs rates will be introduced on 1 July; duties on imported goods will be increased substantially, and a value-added tax will be put on foodstuffs. Our financial experts are convinced that this step will not lead to any kind of marked increase in prices. On the other hand, they say, domestic producers will breathe more freely when they acquire the opportunity to sell their output widely. Such arguments, however, do not convince many specialists, who believe that the prices for commodities—and not only imported goods but domestic ones as well—will jump sharply. In Moscow for example, according to estimates by staffers of the Department of Food Resources of the capital's government, retail prices for chicken, dried milk, and butter will increase 1.4 times as much, the price of beef will increase 1.7 times, and the price of sugar will nearly double.

It is not without reason that Moscow Mayor Yu. Luzhkov made a special appeal to President B. Yeltsin to stop the introduction of new duties. His position is supported by the heads of administration of all the major industrial centers, where 70 to 80 percent of the food is imported today. It may be said that we should trade in our own products; the Russian countryside is in a position to feed the country. Maybe, but not today because due to the lag in technology and low labor productivity, the production cost of agricultural output is high. For that reason, market prices for the principal types of agricultural output are higher than the prices for imported foodstuffs.

So it is unlikely that the condition of the economy and the social sphere will be what the authors of the basic directions of budgetary policy expect by the beginning of 1996, and they will have to make important corrections for that reason.

Let us return to this document. It states that one of the key tasks for next year is improving the system of taxation. It is planned to make substantial changes in it, reducing the burden of payments to the state treasury by commodity producers. This will take place by repealing the so-called special tax, the tax on increased wages, and a number of other minor taxes. In addition, by the end of this year the tax procedures for small business enterprises should be simplified, the amounts of fines for tax law violations should be reduced, and taxpayer

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rights should be extended. All this, in the opinion of leading Russian financial experts, will create additional incentives for entrepreneurs to expand production and thereby increase the flow of funds into the budget.

It is obvious that the relaxation in taxes planned will have a negative effect on the income part of the 1996 budget. The elimination of restrictions on a wage increase alone will bring a shortage of about R25 trillion to the state treasury; one-third of this amount will be federal budget losses. It is completely natural that the Ministry of Finance is looking for ways to make up for such losses. It is completely justifiable that a wage increase will lead to an increase in receipts from the income tax on citizens. As a result, according to preliminary estimates, regional and local budgets will receive an additional R5 trillion to R7 trillion next year.

The principal reserve for increasing all forms of budgetary income is a sharp increase in the volume of taxes collected, stepping up actions by tax and other control organs. By the end of the year, identification numbers of taxpayers must be introduced in payment documents, the instructions and legal basis for the taxes will have to be simplified and put in good order, articles reinforcing responsibility for tax law violations will have to be included in the draft of a new Criminal Code, and additional measures aimed at closing all the channels for tax evasion will have to be put into tax legislation.

It is also correct that financial support in 1996 will be given to high-priority programs and projects that are most promising and capable of increasing the country's economic potential. This includes an increase in the flow of income to the budget.

All the same, not all the measures proposed by the Ministry of Finance to cover the losses resulting from relaxation of the tax pressure are indisputable. We may agree with an increase in land and property taxes as a source of income for the budgetary system, but amendments to the law on the property tax which have been passed by parliament and are now awaiting the president's signature, under which certain exemptions are abolished, are meeting with objections. They include exemption from the property tax for newly formed enterprises in the first year of their existence. Removing this exemption will really bring in substantial sums for the income part of the budget, but at the same time, it will be a crippling blow for small and medium-sized businesses.

The transition to a market economy began in all countries with these very types of business activity. Later, when the new system takes root, they enjoy continuous support from the state. An efficient system for such support has taken shape in the United States. A network of "incubators" has been created there. These are specialized centers where people who have decided to start their own business acquire the knowledge needed in their field and they have facilities with production equipment, computer hardware, communications, transport, etc. They are also relieved of taxes for 3 years until their business can support itself. These "incubators" cost the state $10 to $15 billion annually.

Aside from numerous declarations and decisions about the need for rapid buildup of small and medium-sized businesses, there has been practically no progress made here, and they still play a small role in the domestic economy; in countries with developed market relationships, these enterprises provide half to three-fourths of the gross domestic product. There is a new sign of "concern" about Russia's small and medium-sized business: the most important exemption is being taken away from it. Who will take part in it under such conditions? It is very probable that our economy will lose more than it gains in this case.

We know that the Ministry of Finance is steadily introducing into the collective consciousness of the Russian public the not very popular concept of increasing the public's share of tax payments in order to make them the principal source of income for this item in the budget. This ideology is reflected in the Ministry of Finance's "Basic Directions." They propose to change the existing procedure of complete exemption from taxation of the interest on citizens' bank deposits as well as payments on voluntary personal insurance, bearing in mind that this exemption will be retained only in part. Some specialists are calling such a step extortion by the state. It is worth remembering that the Ministry of Finance attempted once before to lay its hands on Russians' incomes from their bank deposits, but the government "cut down" this initiative. Now it is apparent that its initiators have decided to make use of a window instead of a door.

In reading the "Basic Directions," we get the impression that their authors are mainly performing the purely professional task of state financiers: making the federal budget more balanced, with the lowest possible deficit. Because of this they apparently "overlooked" the fact that a number of economic and social problems conflict with their concept of budgetary policy.

The Russian Government discussed this two weeks ago. The discussion was brief, but it produced results. The authors were instructed to prepare a fundamentally changed document by 15 June for consideration by the government. According to reports, the instruction is being implemented assiduously at the Ministry of Finance. It is to be hoped that the contradictions and

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omissions, including those mentioned here, will be eliminated as well.

***Duma Deputy on Privatization Process**

954E1086A Moscow EKONOMIKA I ZHIZN in Russian Jun 95 No 22, p 6

[Interview with Sergey Burkov, chairman of the RF State Duma Committee on Property, Privatization and Economic Activity, by Ye. Proklova; place and date not given]

[FBIS Translated Text] **In No 21 of EKONOMIKA I ZHIZN we published the RF President's Edict on Measures To Ensure Guaranteed Receipt of Income from Privatization in the Federal Budget. Our reporter Ye. Proklova asked Sergey Burkov, chairman of the RF State Duma Committee on Property, Privatization, and Economic Activity, to comment on this edict.**

[Proklova] Sergey Vasilyevich, the appearance of the president's edict was not unexpected. Results of the first quarter have shown that the actual income from privatization is not comparable with what was outlined before. Nevertheless, doesn't this seem like an extraordinary document to you?

[Burkov] In order to answer that question we must recall that in 1995 the government announced two primary objectives of the second phase of privatization. The first was investment and the second was fiscal, and this is the goal at which the president's edict was directed. As we know, the planned budget income from privatization is more than 9 trillion rubles [R]. The opinion that this figure is unrealistic was expressed a number of times during discussion of the draft budget, but the government had assumed certain obligations to the IMF, and this influenced the outcome of the debates. Nonetheless, the fears were quickly confirmed in practice. In the first quarter, income from privatization to the federal budget was just R38 billion, and for the first 4 months it was about R50 billion. I do not think any comment is needed on that.

When they began to analyze where they could get the desired sum, it became clear that the sources envisioned before do not attract the needed capital. Then the plan arose of removing restrictions on the sale of federally owned stockholdings in the largest Russian enterprises. In itself this is a defeatist idea. In essence the government, not having applied the needed effort to create an effective mechanism for administration of state property, is giving up its most important lever for influencing the economy, and this is occurring in a transitional period when the state should be actively influencing the processes that are occurring.

In this connection I cannot help welcoming the first point of the edict, which prohibits premature sale of state stockholdings in enterprises whose output holds strategic importance for national security, although the struggle on this matter is still to come. At the same time we must recall that the State Duma adopted on first reading a law on the sale of federally owned stockholdings. It envisions that such decisions must be made by the Federal Assembly concurrently with ratification of the budget, but in the edict these tasks are withdrawn to the level of a new Federal Commission, which is formed primarily from members of the government. In this case the State Duma is left out, which is completely unjustified.

Here is one more aspect of the problem. If there is a massive release of stock onto the Russian stock market, the market will simply break down. On the one hand existing demand clearly does not match supply which would occur as the result of such actions. On the other hand, the prices of the stocks of Russian enterprises, especially in petroleum extraction and other sectors of the fuel and energy complex, are significantly understated today. Therefore a premature "superinjection" not only threatens the stock market but makes achievement of the fiscal goals problematic because the stock will be sold for a poor price.

[Proklova] The edict sets norms for the distribution of capital received from privatization. As we know, this was a disputed matter. How optimal are the proportions adopted?

[Burkov] In my view they are not adequately substantiated. Above all I am referring to directing 55 percent of the income from privatization to the federal budget. As a result, the enterprises will be left with very insignificant capital, literally crumbs. A similar situation is also taking shape with respect to regional and local budgets, deductions to which are also understated. I think that in conditions of the critical financial state of the territories, the decision that has been adopted will be evaluated as an infringement on the rights of the regions.

For the sake of fairness it must be noted that the normative price of land established by the edict when selling parcels of land to the privatized enterprises located on them is more realistic. The amount is determined based on a 10-fold multiple of the land tax rate. As a result the mechanism of possible sale is more realistic than before, but when we speak of this we are leaving aside the fundamental statement of the issue: how wise is such a sale today? Many local organs of power oppose this because it violates the unity of land use in their particular city or rayon.

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[Proklova] The edict orders the RF Government to work out a procedure for transferring state stockholdings into security and trust within two months. Judging by everything, is this a reaction to the proposal of the banking consortium?

[Burkov] The consortium presented its initiative at that very meeting on 30 March when the initial version of the document was being discussed. What can you say? Generally, the bankers were acting in a wise and timely manner. It is extremely difficult to resolve the antinomy between investment and fiscal objectives. They made use of the fact that the government was unable to define its own position on this issue and proposed to give credit to the federal budget against the security of stockholdings in federal ownership, but a whole series of issues and objections arise here.

Here are a few of them. Why was the proposal limited to participation by banks that are members of the consortium? Why wasn't it discussed openly and publicly in banking circles in advance? It is true that the situation is changing now and there is already talk about selecting banks on a competitive basis. Furthermore, there are fully justified fears that such a solution to the problem of financing the budget will lead to monopolization of power—not just economic power, but also political power.

There is one more problem: the nature of the possible impact on the stock market. On the one hand it is a natural (although weak) limit on massive sale of state stockholdings. On the other, if the consortium's proposal is adopted, this will substantially retard the development of the stock market because the most liquid blocks of stock will be cut off from the real play of the market.

Nonetheless, even with the numerous objections, the bankers' proposal deserves further discussion and more careful study. This is possible with observation of certain conditions. Above all there must be a mechanism for transferring blocks of stock to trust management. In turn, in order for it to be fully realized there must be a law on trust administration. Otherwise there are essentially no realistic guarantees that the agreements reached will be observed. Until the legislative base is secured, we should not be in a hurry to adopt fundamental decisions. Instead, we must test the mechanism, and only afterward can we move on to broader actions.

[Proklova] Judging by the content of the edict they are placing hopes not just on the domestic, but also the international stock market?

[Burkov] Yes, they have such intentions. Some people link them to carrying out the idea proposed by the bankers, but in this case the consortium would be made into nothing more than a simple intermediary between the state and Western investors. We certainly have no interest in placing stock in Western markets quickly. There are much more important goals. Above all this means the economic security of Russia. Therefore, at first we must do some serious work to preserve state influence on enterprises in the key sectors, and after that we can talk about closer integration with the international stock market.

In addition, until recently Russia has been seeing an influx of speculative foreign capital. We should not allow this practice to continue. Even if such an approach makes it possible to obtain planned budget income, the country will not see the appearance of those efficient owners, about whom the ideologists of privatization have been talking for so long. Therefore, the time has come to finally determine what the goal of privatization in our country is. Let me recall that the countries which have successfully completed similar transformations were focused on one of two challenges. The first was to replenish the budget with income from privatization given the existence of a stable sector that ensures stability of the economy as a whole. In this case inflation was suppressed. The second was to sell enterprises for the purpose of ensuring a flow of investment and the appearance of owners capable of managing it efficiently. This path was chosen by countries with a low level of inflation.

The Russian reformers decided to "kill two birds with one stone," and they achieved stunning results. Selling an enormous mass of property and not getting real owners, they found themselves in conditions of inflation which so far they have been unable to stop. If they do manage to stop it, it is using methods that lead to a further drop in production (which, after a certain stabilization, is continuing in the third quarter of the present year), a rise in the level of unemployment, colossal growth in foreign indebtedness, and chronic shortfalls of budget income. It is time to understand that this is a contradictory, dead-end path. This should not just be stated in a declaration; state investment policy should be conducted realistically. Only in this case will a stable source of financing for the economic development of enterprises and replenishing budget income appear.

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***Prospects for Monetary Policy Viewed**

954E1045A Moscow KOMMERSANT in Russian 30 May 95 No 20, pp 26-30

[Article by Ye. Makovskaya: "For Whom Does the Ruble Toll"]

[FBIS Translated Text] **Public statements by executives of the Central Bank make it possible to imagine the essence of future Russian monetary policy**

"Today's wooden ruble is already made of wood which is like iron. We are hoping that as a result of the joint efforts of the Bank of Russia and the entire banking community the ruble will soon really begin to ring out!" This is from a press release by the Central Bank of Russia.

Half Way Through Stabilization

Tatyana Paramonova, acting chairman of the Central Bank, in her speech at the ARB [Association of Russian Banks] conference, declared that the Bank of Russia intends to influence the process of development of the banking sphere in order to encourage competition among banks on the one hand and cooperation on the other hand, and presented a number of proposals to the banking community.

Thus, in connection with nonfulfillment of financial obligations by a number of banks to each other, the clients, and the depositors, it is planned "to create interbank institutions for management of banks in crisis. Despite the competition, banks must not prod each other to the edge of the abyss, but through joint, perhaps even rigid measures, they must prevent the chains of nonpayments, thereby supporting stability of the entire financial system," Tatyana Paramonova stated. She also considers it necessary "to create funds for voluntary insurance of deposits and a national system for checking the solvency of borrowers" and with the aid of commercial banks "work out principles to be used by them in establishing mutual relations as correspondents."

The speaker gave bankers several "nontrivial" prescriptions. "Inasmuch as the Bank of Russia cannot become the guarantor of profitability and stability of each individual bank, every bank must independently strive to improve its activity in the area of implementation of strategic planning and preparation of strategic business plans; consolidation of the structure of capital, including its recapitalization; strengthening of control over current liquidity, credit, and other risks; implementation of comprehensive programs of personnel training; and ensuring of openness in work with the public."

For about the 10th time this week the head of the Central Bank presented the position of her agency regarding a change in the order of creating reserves, which generated many arguments among commercial banks along with tumultuous ARB protests (the existing rate is 20 percent for current accounts, 14 percent for time deposits up to 90 days, and 5 percent for foreign currency accounts).

The Central Bank is prepared to conduct day-to-day reviews of reserve norms for commercial banks in accordance with the development of the situation on the money market. In the immediate future, however, the rates will not be lowered.

Striving to prove the social aim of the changes in the policy on reserves, the head of the Central Bank reverted to some peculiar arithmetic, the basis of which still consists of the calculation of inflation dynamics: "In the first quarter, thanks to the rigid and outwardly unpopular policy we are conducting, the losses among Russian citizens decreased from 170 rubles [R] to R90 for every R1,000 of monthly earnings. Most of the commercial banks viewed the measures being undertaken by the Russian Government and the Bank of Russia with understanding and formed the required reserves on time, making their contribution to the struggle against inflation."

Responding to the protests by ARB, Tatyana Paramonova stated that they "reflect the interests of individual large banks and not the entire banking community and certainly not those of the entire population." Fulfillment of the demand to lower the level of reserve requirements in rubles to 10 percent, according to her, would cut in half the volume of fund assets and would double inflation. According to calculations by the Bank of Russia "transfer to the proposed system of calculating reserve payments for banks in half of the regions of the country, including Moscow and the capital district, left the volume of these reserves unchanged and even decreased them." According to Tatyana Paramonova's data, however, in rubles the increase of the reserve fund amounted to 1.5 trillion, while in foreign currency it was R4 trillion. Still these figures are far from the initial calculations by the commercial banks themselves, which indicated a potential increase of the fund by R25 trillion.

At the same time the acting chairman of the bank reported that the Bank of Russia is prepared to review the reserve rates as well as the discount rate—"with progress toward achievement of financial stabilization and strengthening of the national economy." She also added that deductions from foreign currency accounts in rubles must promote the "de-dollarization" of bank

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balances. At the same time the Central Bank does not intend to pay interest on reserve sums of "the taxpayers" ("we simply do not have the money for that") or to compromise. Compliance of loro accounts with reserve requirements was indicated by the head of the Central Bank as a conscientious act. "Many central banks of other countries, including the federal reserve systems of France and Germany, determine so-called limits on establishing interbank correspondent relations between banks. We have not had such limits up to now, even though we are working on that problem." Tatyana Paramonova recognized that there are banks in the banking community today, which are on the verge of bankruptcy. Opening their correspondent accounts in healthy banks and conducting business might create a systemic risk. In order to guard against that, the Central Bank included loro accounts among those requiring reserves until limits are established on correspondent relations by the Bank.

"We are criticized for unwillingness to conduct preliminary consultation with commercial banks before adoption of important documents dealing with banking regulation," the chairman of the Central Bank stated, "but that is not true." She indicated readiness to negotiate various financial issues both with emissaries of the government and the banking circles (a working consultation group with participation of ARB specialists was created under the aegis of the Central Bank). "At the same time we fully realize that it is quite difficult to reach consensus on problems that involve the financial interests of banks."

Anatoliy Chubays, the first vice premier who attended the ARB conference, was in a very good mood and even though he did recognize that the decision regarding the change in reserve requirements was adopted by the Central Bank without consultation with the government, he admitted that the Bank of Russia had serious grounds for adopting such a decision. "The worst resolution of this situation would have been rejection of the given decision, inasmuch as that would be unfair with respect to banks which have already made the payments," Anatoliy Chubays said concluding his remarks on that topic to the accompaniment of laughter by the assembled bankers.

Shifting to issues of the macroeconomy, the first vice premier noted that the tendency toward a rise in inflation has been broken and expressed the hope that it will be completely eliminated. It is true, however, that he offered no comment on how it will be affected by the rise in import tariffs effective 1 July which augurs a rise in prices for consumer goods by a factor 1.5, according to the specialists' predictions.

Anatoliy Chubays promises that there will be no revolutionary changes on the foreign currency market such as the introduction of a fixed exchange rate.

In general the speech by Anatoliy Chubays had much in common with the speech by the head of the Central Bank. Again without tying in what was said with the inflationary processes, the vice premier reported an increase in pension payments by 27 percent, an increase in teachers' wages in May by 30 percent and in June by 50 percent, and financial support for science.

Actually, declarative attacks on inflation began with the first day of liberalization in Russia, and these incessant appeals for its elimination have managed to set us on edge. Governments of various ilk have repeatedly made extensive promises to stand united against the economic evil while quietly holding out their hand to the Central Bank for cheap budget credits.

It was not the first time that Anatoliy Chubays referred to financial stabilization, which must be implemented before the end of this year, as a cornerstone in fulfilling the three-year government program. He voiced unbending confidence that inflation is destined to whither away: "I checked on rates for futures contracts in September; I felt very sorry for the buyers because of the prices. At the same time everything will be exactly as we are planning; inflation will start going down." (Tatyana Paramonova informed KOMMERSANT that the rate of inflation over the past two weeks was 3.6 percent, while by the end of May it will probably be at a level of 7 percent a month).

Then the first vice premier outlined developmental prospects of the various market sectors. He promised that "there will be no revolutionary changes on the country's currency market like the introduction of a fixed exchange rate, while profitability of currency operations will diminish." On the GKO [government short-term bonds] market "the volume of operations with them will grow while profitability will also decrease." According to Mr. Chubays, however, the corporate securities market will grow and the profitability of some key securities will rise. In that manner, according to what the vice premier says, the government intends "to redistribute free financial resources within the country, channeling them from the currency market into the GKO sector and from there into portfolio investments; then they will be transformed into direct investments in the economy."

Evaluating the speech by Mr. Chubays, the chairman of the board of directors of Promstroybank referred to it as brilliant, "if only those hopes could be justified." Yakov Dubenetskiy told KOMMERSANT that the situation at the end of spring appears to be radically different from that of last year because "today our government is at

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a different level of understanding the economy; it is capable of observing budget discipline."

When Hope Overcomes Experience

In an exclusive interview with KOMMERSANT Aleksandr Potemkin, director of the Department of Foreign Operations of the Bank of Russia, declared that he considers the recent lowering of the Central Bank discount rate by 5 percent a very serious step "indicating the start of fundamental changes on the financial market. In this manner the Bank of Russia, traditionally one of the most conservative institutions on the financial market, indirectly confirmed that anticipation of a drop in inflation is substantiated."

Let us recall that the discount rate of the Central Bank reached its lowest point of 130 percent in the middle of last year. It maintained its position right up to the events of 11 October, when, upon coordination with the Ministry of Finance, it was raised sharply to 170 percent. Since that time the discount rate of the Bank of Russia steadily rose reaching 200 percent in January 1995. In the opinion of Aleksandr Potemkin, a lowering of the discount rate is a powerful factor that should be used with great caution. Its lowering, as indicated by the experience of last year, leads to a drop in rates on deposits at commercial banks and to an outflow of resources from the banking system as a whole. The Bank of Russia, however, regards as an achievement the existence of positive deposit interest rates on the market, which guarantee the attractiveness of the ruble.

It appears that with a transition to the principles of indirect regulation of the financial market, the Central Bank is becoming increasingly more cautious, attempting as much as possible to anticipate the results. Lengthy discussions frequently precede the adoption of decisions. Apparently remembering all the negative consequences which the Central Bank had to overcome with a significant lowering of the official rate last year, Aleksandr Khandruyev, first deputy chairman of the Bank of Russia, at a session of the Board of Directors of the Central Bank which studied this question, defended his special opinion. Aleksandr Khandruyev proceeds from the fact that inflationary anticipation in society are still excessively high, while the discount rate itself has no practical significance. Centralized credits are not being issued, and while credits for the government to cover cash shortages are granted at a rate of 10 percent annually, the borrowing rate is reflected through the GKO by the profitability index of those securities. In that manner the discount rate has a significance only in conducting credit auctions. The lowering of deposit rates in commercial banks caused by chain reaction (which, by the way, was first started by Sberbank of the Russian Federation), in the opinion of the deputy chairman, is capable of lowering the resource base of banks, leading to a rise in rates on the interbank market. The latter, closing the circle, will promote inflationary anticipation.

Aleskandr Potemkin, in talking about the exchange rate policy of the Bank of Russia, did not agree with the widespread view that it is specifically the rise in the ruble exchange rate to the dollar which is a sign that inflation has been controlled. "Things are much more complicated. It is necessary to remember that the currency market is sensitive to changes in market conditions: the introduction of any kind of measures by the Bank of Russia, a deficit of ruble resources that might occur, and finally the seasonal factor. For example, the end of spring to the beginning of summer and the beginning of autumn are traditionally considered periods marked by an increase in the volume of proceeds flowing in from exports.

"The market naturally senses this. Therefore it is very important for the Bank of Russia to separate temporary changes from fundamental ones. The ease with which a drop in the dollar exchange rate occurs may be deceptive; usually later it is compensated by upswings in the exchange rate. The tendency toward stabilization of the ruble is more important: if it is taking place as the logical outcome of dropping inflation, then one, as they say, reinforces the other," Aleksandr Potemkin believes.

"Over the preceding four months, the growth rate of the money supply lagged behind the rate of inflation by a factor of two. At the same time it is important to note that to a significant degree the increase in the money supply was taking place not so much because of the granting of emission credit by the Central Bank to finance the budget but because of an increase in the money supply connected with purchase of currency for the foreign currency reserves of the Central Bank. The last circumstance indicates the arrival of a period of de-dollarization of the economy," says the director of the Department of Foreign Operations of the Central Bank, "except that this process has not yet developed in earnest."

Simultaneously Aleksandr Potemkin noted that "the lowering of inflation, which was easy in the first stages, is becoming more difficult from month to month. Look at what happened in the March-April period. In all of April it was possible to knock inflation down by only half a percentage point as compared with the previous month—to 8.5 percent. We are starting to enter 'dense layers' and every subsequent percentage point of decrease will apparently be possible by overcoming contradictory tendencies with conscious effort. It is sufficient to mention the fact that with a growth in

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confidence in the ruble among the subjects of the market, there occurs a natural desire to be free of accumulations of foreign currency. Inasmuch as the economy cannot accept such a volume of dollars, they inevitably flow into Central Bank reserves, thereby increasing the money supply. During crucial periods, such as the one being experienced by the Central Bank, one of the main tasks, along with consolidation of the positive tendencies of decreasing inflation, is to ensure maximum stability on the financial market because during that period, as a rule, there is disarray in an entire series of indexes: interest rates, level of GKO profitability, foreign currency exchange rate. The discord will immediately create grounds for speculation of various kind—for games. If, using a momentary concession of the market situation, such as a drop in the exchange rate for example, we are seduced by the ease of victory and violate the harmony of correlation between financial indexes, we can then experience a boomerang effect in the form of the destruction of the barely defined tendency toward stabilization."

The behavior of the dollar on the world currency market promotes the Central Bank to think about feasibility of attaching the official ruble exchange rate not to the dollar but to a basket of currencies.

The director of the Central Bank department categorically refuted the assertion that in lowering the discount rate the Bank was prompted by the political situation. "That decision was adopted after many weeks of debate and has no relation to the fact that the position of head of the Central Bank is coming up for consideration at the State Duma. Moreover, the Bank of Russia, fearing that this measure may turn out to be premature, had to resist certain pressure exerted by the government circles and the press."

Responding to a question posed by a KOMMERSANT correspondent regarding what the Bank of Russia is counting on in order to avoid a setback which followed last year's period of stabilization, which was even enhanced by a 4 percent inflation level, Aleksandr Potemkin stated that he is prepared to give only his own subjective opinion. In his opinion most of the structures today managed to adapt to the changing conditions of economic management. "I do not want to engage in optimistic exaggerations, however, it appears that society likewise clearly understands that inflation is an evil and constitutes robbery, that there are no miracles, and that it is necessary to consciously make certain sacrifices. Otherwise it is difficult to face those who apologize for unrestrained inflation; there were many of these people two years ago. Now our country is being given a fair chance to make an attempt to resolve the crisis; failing to use it would be most unfortunate. Hope overcomes experience." (By the way, as we have repeatedly observed, today's situation, when inflation is low but real credit rates are high, does not favor the start of an industrial upturn—KOMMERSANT).

Aleksandr Potemkin also informed KOMMERSANT that the Bank of Russia has possibilities of creating a certain reserve against risks which occur on the path toward financial stabilization. "In 1994 we selected the classical path of creating a currency reserve, a kind of 'pillow;' that is we attempted to 'mortgage' ourselves to a certain degree autonomously from the economy for some reserves. It turned out that without consideration of all aspects of the overall economic policy it is difficult to count on the strength of one's own reserves. It is necessary to count not only on inclusion of 'braking systems,' which soften critical phenomena."

Explaining to KOMMERSANT how the Central Bank evaluates the activity of the MMVB [Moscow Interbank Currency Market] last year, Mr. Potemkin did not hide the fact that the Bank of Russia "gives priority to the development of the interbank market, but it is premature to remove MMVB from the accounts as the organizer of the currency market."

It is possible that it will be permitted to carry out the mandatory sale of export proceeds not only through the currency markets.

This year the MMVB is transforming into a commercial organization, losing two auctioneers—the banks Ukraina and Vostok—but acquiring new ones—Vneshtorgbank of Russia, ONEKSIMbank, MFK—and, what is indicative—the Ministry of Finance (the Ministry of Finance will own 12 shares in the MMVB statutory capital whose par value was raised by a decision of the market shareholders from R100,000 to R1 million). The Ministry of Finance becoming a shareholder will give it the opportunity of formally including its representative on the market board which decides all the most important standard documents that regulate the activity of the market and the conduct of trading on the market." Sergey Aleksashenko, counselor of the Ministry of Finance and president of the Association of Currency Markets, became such a representative.

The market will undergo other changes as well. It is possible that it will be permitted to carry out the mandatory sale of export proceeds not only through the currency markets. Aleksandr Potemkin reported to KOMMERSANT that the temporary order of conducting trading on the MMVB, which stipulates preliminary deposits,

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will be repealed, but only on the condition of the introduction of limits instead. In addition to that the MMVB is planning to create an insurance fund to cover the risks of participants and work out a mechanism of solid responsibility. Somewhat earlier, during the spring meeting of the Association of Regional Currency Markets, Aleksandr Potemkin did not deny that the new order will complicate the trading mechanism and lower the interest of a number of banks in market operations for a certain period of time. He also added that any disruption on the interbank market is capable of proving to the participants that reliability of the market mechanism also has its advantages. According to the representative of the Central Bank, the Bank of Russia is studying the possibility of altering the mechanism used to establish the official ruble exchange rate, without, by the way, proposing changes in the order used in exchange rate formation. "It would probably be wise to announce the Central Bank exchange rate (buying rate-selling rate) daily until the start of trading within limits of a certain margin, for instance, plus or minus 2.5 percent. If the exchange rate goes beyond the established limits, the Bank of Russia will maintain assigned limits of exchange fluctuations through intervention," Aleksandr Potemkin indicated. The behavior of the dollar itself on the world currency market prompts the Central Bank to think about the feasibility of attaching the exchange rate not to the dollar but to an entire basket of currencies. The director of the Central Bank department feels certain that "both the Central Bank and the commercial banks will be concentrating their attention in the immediate future on the first segment—an extra market—which will start operating at the MMVB within two months."

Brief comment: From the information collected by us from various sources, in our opinion there appears to be two fundamental characteristics of the new Central Bank policy regarding the market. The first one is an attempt to take a more adequate account in its actions of the interrelation between various sectors of the currency market and that of the macrofinancial indexes with macroeconomic indexes. The second one is the attempt to create a kind of "multilevel" system of reserves for operations in every segment of the market. In other words, it is possible to say that the Central Bank has already started preparing as much as possible to meet the autumn surge of inflation in a proper manner.

***Emerging Thaw in Cuban-Russian Relations Viewed**

954E1106A Moscow MOSCOW NEWS in English No 20-21, 2-8 Jun 95 p 7

[Article by Alexei Bausin: "Havana, Moscow Make America Wary"; first paragraph is introductory paragraph]

[FBIS Transcribed Text] The warming-up in relations between Havana and Moscow will hardly delight the Republican majority in the U.S. Congress, which is now actively discussing a bill linking American aid to Russia and other CIS nations to the demand not to sell goods to Cuba below world prices.

The history of Russia's relations with Freedom Island (as Cuba was known in the Soviet Union) over the past few years has served as an excellent illustration of how the U.S. stand affected the foreign policy of the USSR and Russia. After a meeting with Mikhail Gorbachev off the shores of Malta, George Bush called Soviet aid to Cuba "the last obstacle in the way of radically improving" American-Soviet relations. Inasmuch as the United States had already tied its economic aid to the Soviet Union to the termination of its supplies to Cuba, the Soviet leadership rushed to eliminate that obstacle: three weeks after the abortive putsch in 1991, without any preliminary consultations with the Cuban side Gorbachev announced that he was withdrawing the Soviet training brigade from the island. That decision sharply worsened relations between Moscow and Havana.

Boris Yeltsin toed the same line in folding down relations with Cuba. During his visit to the U.S. in 1991 he said that since 40 percent of Russians lived below the official poverty line Russia had no right to continue engaging in "such charity" (the question was of multibillion ruble subsidies to the island). This, as well as the disintegration of the socialist camp, enabled the Cuban leadership to announce the beginning of "a special period during peacetime."

Incidentally, it is at that time that the Russian parliament carried out hearings on the observance of human rights on Freedom Island and when Russia's representative to the UN, for the first time in that organization's entire history, voted for the adoption of a resolution sharply condemning the violation of these rights by Cuban authorities.

As a matter of fact, even in that situation Fidel Castro, who had outmaneuvered all successive American administrations from Eisenhower to Bush, proved himself to be a grand master of geopolitics. Today Andrei Kozyrev himself says that Russia and Cuba have a great potential for cooperation not only in the economic but

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also in the political sphere, whereas the State Duma passed resolutions calling for lifting the American embargo. The arrival in Moscow of Cuba's minister of foreign affairs — the first visit at this level in many years — has undoubtedly confirmed the same trend in the resumption of cooperation between Moscow and Havana.

Today a sharp reaction should evidently be expected from the United States. The above-mentioned bill tabled by Jesse Helms, chairman of the Senate Committee on Foreign Relations, "On Democratic Solidarity and Cuban Freedom," presupposes a reduction in American aid to Russia and those CIS countries continuing to export to Cuba at prices below the world level (although Russia has long given up this practice). Special concern on Capitol Hill has been provoked by the activities of the Russian electronic intelligence center in Lourdes.

What does rapprochement with Cuba mean for Russia? According to some estimates, in the three decades of Soviet-Cuban cooperation we invested over $100 billion in the island's economy. Nor is it worth forgetting that not a single other country has the same number of industrial facilities built with Soviet participation and the same number of specialists trained in the USSR. If we succeeded in retaining the dominant position in Cuba's nickel industry, Russia could corner the world market of this raw material. Today over 500 joint industrial facilities are in a frozen state. It is clear that relations with Cuba will never be what they were before, but it is also obvious that no matter who should be at the helm in Havana — Fidel Castro or the leaders of the Miami opposition — Russia's economic interests in Cuba will remain. And therefore the thaw in our relations can only be acclaimed.

*Privatization of Sberbank 'Postponed, Not Canceled'

954E1061A Moscow KOMMERSANT-DAILY in Russian 6 Jun 95 p 5

[Article by Maksim Akimov, special correspondent: "The Grandiose Sale Is Being Postponed"]

[FBIS Translated Text] **Yesterday, 5 June, marked the end of the 30-day period during which, under existing law, the stockholders of Sberbank [Savings Bank of Russia] were supposed to complete the annual stockholders meeting which began on 5 May this year. During this time Goskomimushchestvo [RF State Committee on the Administration of State Property], which was declared the successor to Tsentrobank [Central Bank of Russia] as holder of the state's stocks (50 percent plus one share), promised to develop rules for the privatization of one of the country's largest banks, but the rules were not developed and the conclusion of the stockholders meeting has been put off again, this time for an indefinite period. Judging by everything, the point of view of those who think that hurried privatization of Sberbank is undesirable has prevailed in the corridors of power—especially in an election year.**

In the article that follows, special KOMMERSANT correspondent Maksim Akimov analyzes the situation surrounding the privatization of Sberbank.

It is obvious that the situation surrounding the state's stock in Sberbank is a reflection of the complex struggle among the interests of Goskomimushchestvo, Tsentrobank, the leadership of Sberbank itself, and the commercial banks who want to "eat up" Sberbank right now, the ones who want to "eat" it later, and those who do not want to (or cannot) eat it up at all. Moreover, the significance of Sberbank for millions of private depositors (voters) makes the question of the bank's fate significantly political. Since it is obvious that some time will pass before a final decision is made, let us try to sum up the preliminary results of the struggle for Sberbank.

Goskomimushchestvo's Attack Misfired

As a result Goskomimushchestvo found itself in an uncomfortable position. Everything started very effectively: the sudden appearance of Vice Premier Anatoliy Chubays and GKI [Goskomimushchestvo] Chief Sergey Belyayev at the 5 May stockholders meeting, Belyayev's report that the GKI would be the successor to Tsentrobank as holder of the bank's state stockholdings, and the sensational announcement that a plan for sale of state stockholdings to outside investors would be ready by June. It must be said that in late May, the GKI head reaffirmed that Sberbank would be privatized in 1995. Then came 5 June and nothing happened. KOMMERSANT reporters tried to find out what was going on, but Alfred Kokh, deputy chairman of GKI, refused to comment on the department's plans in this aspect, referring to the "complexity and ambiguity of the issues involved in the privatization of Sberbank." According to the official statements of GKI chairman Sergey Belyayev, the "privatization of Sberbank will be put off until adoption of special legislation." (In fact, according to KOMMMERSANT information, the Duma committee headed by Mikhail Zadornov is supposed to discuss the Sberbank question in the near future. Amendments to the Law on Tsentrobank have already been prepared in the State Duma. According to them, the withdrawal of Tsentrobank as a shareholder in Sberbank may be postponed until the year 2000). Incidentally, on 24 May at the Congress of the Association of Russian Banks, Mikhail Zadornov announced the possibility of making such amendments to the law. That is when it became

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clear the "settled matter" of privatization of the bank was far from settled.

Tsentrobank Believes That There Is No Need To Hurry

Tsentrobank occupies a dualistic position in the story of the privatization of Sberbank. The present management of the bank believes that the withdrawal of Tsentrobank as a shareholder of any commercial structure, including Sberbank, is entirely justified, but they assess the date indicated in the Law on the Central Bank for realization of the decision (before 1 January 1996) to be plainly unrealistic. Shortly after the "recess" in the Sberbank stockholders meeting was announced, Tsentrobank chairwoman Tatyana Paramonova and her first deputy Aleksandr Khandruyev said in one voice that in this situation the privatization of Sberbank and depriving it of the status of specialized bank—in other words turning it into an ordinary commercial bank—was plainly "premature" and negative on the social level. Also, just a few days ago in an interview with INTERFAX News Agency, Tatyana Paramonova stated quite definitely that the sale of state stock in Sberbank is not planned in the next few months and that even in the future, auction sale of state shares in the bank must be done "cautiously and over a period of several years," while the existing state guarantees for Sberbank depositors be preserved.

The Management of Sberbank Wants To Continue To Manage

Anatoliy Barabash, first vice president of Sberbank, commented on the problem from the standpoint of the top bank management. In his words, the optimal version of destatization of the bank would look roughly like this: 25 percent of the stock remains in state hands represented by Tsentrobank or the GKI and 25 percent is sold to the population, first of all bank depositors, and at face value (50,000 rubles [R]). We will note that representatives of Tsentrobank and the GKI had planned earlier to sell the shares at market value, at least twice face value.

Having dispersed money among the population in this way, the Sberbank management plans to avoid it becoming concentrated in the hands of an outside investor. The people at Sberbank believe that in this case the controlling stock will continue to be held by the state, and ongoing direction would be exercised by the top management of Sberbank. On the other hand, according to the logic of the Sberbank executives, if bank depositors receive stock and become co-owners, state deposit guarantees are no longer required. This will satisfy those who think that the bank enjoys undeserved privileges.

Privatizers and Conservatives

Russian bankers are unanimous about just one thing: sooner or later the state share of Sberbank capital will have to be privatized. Beyond that, however, opinions diverge.

One group of banks—including Tokobank, Avto-VAZbank, Tveruniversalbank, and a few others—consider the privatization of Sberbank premature. Bankers gave several reasons to substantiate their position. In the first place, the state should have a structure capable of efficiently performing such large-scale tasks as exchange of money or issuing vouchers. In the second place, Sberbank resources should be a state reserve to cover unforeseen expenditures. In the third place, privatization can cause panic and outflow of personal money (and it will not necessarily flow to the commercial banks). In the fourth place, the regional authorities, who view Sberbank as an inexpensive source of financing for local programs, can use privatization to divide it into regional banks.

The second group, to which Stolichnyy Bank Sberezheniy [Capital Savings Bank], Inkombank, and National Credit Bank belong, considers the privatization of Sberbank essential today. Inkombank president Vladimir Vinogradov stated directly at a recent press conference: "We must say frankly to the Sberbank depositors that there are no guarantees from the state on their deposits. Sberbank must be privatized, and we would gladly acquire 5-10 percent of its stock in order to exert greater influence on decisionmaking." The main argument of the supporters of privatization is the state's inability to manage it stockholdings effectively and, accordingly, take Sberbank to a higher level of development. Some bankers think that it is precisely the private commercial banks that should have preference in buying Sberbank stock because "non-specialized" investors are unable (and we can agree with this) to influence the strategy of bank development. In the opinion of these bankers, there will be no outflow of the capital of private depositors in connection with the privatization of Sberbank.

Privatization Is Being Postponed, Not Canceled

Thus some preliminary results can be drawn. It is obvious that there will be no "snowballing" or "urgent" privatization of Sberbank. It will most likely be put off until "after the elections." For now the party of "conservatives" (Tsentrobank, the Duma committee, and some bankers) are on top of the party of "privatizers" (the GKI and the other group of bankers). The main reason,

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obviously, is that a political factor has emerged—the undesirability of upheavals before the elections.

As highly informed sources have let it be understood though, Sberbank privatization is only being postponed; in no way is it being canceled. Also, the "25 percent for the state and 25 percent sold to the population" option was called the most likely. Here is the source of uncertainty though. If restrictions are put on the transfer of stock from hand to hand (the Gazprom [Gas Industry Association] example), then it will be possible to speak of the preservation of state control in a new form. If not, there will be no obstacle to concentrating large blocks of stock in the hands of interested banks, and then the 25 percent state block will no longer be controlling.

***State Duma To Consider Laws on Bank Failures**

954E1090A Moscow IZVESTIYA in Russian 14 Jun 95 p 2

[Article by Ya. Shimov: "On the Art of Going Broke"]

[FBIS Translated Text] **The Government Can Still Complicate Life for Dishonest Financiers**

We have quite a few banks in our country—about 2,000. If one is to believe the Central Bank of Russia, about a third of them have now become unprofitable. Among the latter there is a "mighty bunch," the very mention of which (O.S.T., Promyshlennyy, Chara, Rosakadembank, Gornyy Altay, Kapital, and others) causes those whom they cheated to clench their fists in a fit of completely justified rage. This indignation, it seems, found a certain response in the State Duma, which is already working on several draft laws that could complicate life for dishonest financiers.

At the very start of the nineties we recall that "bankomania" enveloped domestic businessmen; commercial banks began appearing like mushrooms after a rain. In full accord with the laws of nature, however, the high tide was followed by a low tide and beginning in the spring of last year specialists began noting with some alarm that bankruptcy and liquidation of small and medium-size banks became as massive a phenomenon as their birth several years earlier. The number of depositors who found themselves getting nothing for their pains as a result of these bankruptcies quickly began growing to tens and then hundreds of thousands. At the same time it became clear that the situation of clients of the failed banks, seemingly solid organizations which had Central Bank licenses, was no better than that of the long-suffering investors in MMM, Tibet, and other pyramid scheme offices.

The case involving Rosakadembank, about which IZVESTIYA had already written on 1 June, is particularly instructive in that sense. Let us recall that last autumn that bank declared its liquidation, but no practical steps were taken to satisfy the just claims of the depositors. The liquidation commission, which must be created in such cases, never began its work. At the same time heads of the failed bank declared that it is impossible to form the commission without a representative of the Central Bank (its participation in the liquidation of banks is really stipulated in last year's presidential decree No 1184), while the Central Bank refused to appoint its representative, making references to certain new additions to the legislation in accordance with which the presence of a Central Bank emissary on the liquidation commission is not at all mandatory.

All of that ended with a situation where many clients of the ill-fated bank went to the courts which began ruling in their favor. Meantime the Moscow office of the procurator initiated criminal cases in accordance with Article 147 (fraud) against all of the Rosakadembank executives, the bank accounts were frozen, while the writs of execution obtained by the depositors in the courts turned into useless scraps of paper and they were unable to get a single ruble of their money back. At present the depositors have just one hope left, which is that the government will recognize Rosakadembank as having gone bankrupt intentionally (such a concept exists in the law on insolvency (bankruptcy) of enterprises which is in effect) and the funds, as well as the property of the bank, could be used to reimburse the losses of its clients.

The tearful complaints of the depositors of Rosakadembank, Chara, and others like them drew the attention of the State Duma Banking Subcommittee to the problem of bankruptcy and liquidation of banks.

In this manner two draft laws appeared on liquidation, bankruptcy, and reorganization of banks and on the Fund for Mandatory Insurance of Deposits, which had no precedent in Russian legislation. I will make the reservation right away that even according to their authors these laws are still quite "raw" and require additional work. The innovations, however, that are being offered in them are quite serious and concern the interests of such a large number of current and future depositors that they can be publicized even today.

First of all the elaborators of the draft law want to expand the list of those who have the right to appeal to the court of arbitration with a request to recognize a bank as bankrupt. At present this may be done by bank clients (on the condition that the amount of their deposit with regard to which the bank is not fulfilling its obligations equals at least 500 minimum wages), the founders themselves, and offices of the procurator. The

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Duma subcommittee, however, plans to grant such a right to the Central Bank and the Fund for Mandatory Insurance of Deposits (which will be discussed below).

In accordance with the new draft law an important role will be played in the liquidation of a bank by a representative of the Central Bank, whose presence on the liquidation committee it is planned to make mandatory. If in the course of the work of such a commission the Central Bank emissary should find that the bank is bankrupt due to its financial position (bankruptcy and liquidation are two different things), then he has the right to repeal the decision on liquidation and raise the question about bankruptcy which also involves special procedures which are described in detail in the law. That may prevent intentional bankruptcies whose number is growing every month.

A statute is already in effect in accordance with which new banks can start accepting deposits from the public no earlier than two years after they are founded. In the future, however, it is not precluded that another condition will be added to this one: a restriction preventing the liquidation of a bank within three years of its founding. In addition, liquidation as such will be permitted only in cases when all specific obligations have been totally fulfilled by the bank; it can, let us say, owe its employees back wages, but it cannot fail to pay interest to its clients before liquidation.

Finally, there is another issue which, judging by everything, will provoke quite a few arguments in the immediate future; it concerns the Fund for Mandatory Insurance of Deposits. According to Duma legislators, that organization, whose analogs have been in operation for a long time in most of the developed countries, must be something like a bank cashier who will pay out insurance, or rather 100 percent of the initial deposit to clients of a failed bank. As evidenced by the name of the fund, the insurance of private deposits in banks must become mandatory. It is proposed to make the amount of deposit that is to be made by banks into that fund dependent on their reliability: the more reliable pay less; "dark horses" pay more; and at the same time any changes in the reliability rating must be made regularly.

All the indicated innovations on the whole create the impression that this is the most radical attempt in the last few years to change something in mutual relations between banks and depositors, which so far continue to be a rather risky business for the latter. The success of this attempt will be determined in a few months when the fully prepared draft laws are studied by the Duma (unless, of course, by that time the deputies get too involved in their election campaigns).

***Central Bank Oversight of Commercial Banks Increasing**

954E1088A Moscow SEGODNYA in Russian 3 Jun 95 p 3

[Article by Andrey Grigoryev: "The Central Bank Has Strengthened Oversight of Transactions With the Public's Money"]

[FBIS Translated Text] The Central Bank circulated its instruction "On Measures To Ensure That Commercial Banks Meet Their Commitments to Depositors" the other day. The document's preamble notes that "individual banks are continuing to attract the public's money aggressively without taking into account the availability of their own funds." Let us remind you that at the very end of 1994, the Central Bank issued an order strictly linking the limit of funds attracted from the public for deposits to the amount of a bank's own assets; the first indicator may not be larger than the second. This provision has also been reflected in changes made in the law on banks and banking activity, but there has not been any effective mechanism for monitoring the banks' adherence to this rule. Meanwhile, the failure to meet commitments to private depositors is becoming more widespread. Representatives of both the Central Bank and the banks continue saying that a system for insuring deposits is needed, but there is none. For this reason, the problems which arise as a result of banks' insolvency have to be resolved by the Central Bank, and the suffering depositors are shifting all their indignation and complaints there.

In the absence of a formal mechanism for covering clients' losses, these decisions are naturally individual in nature. In particular, Central Bank Deputy Chairman Tatyana Artemova held a conference on the problems of insolvent banks the other day which focused on the situation of the "Chara" Bank. The bank's current management was given an extension until 10 July to determine the exact sum of its indebtedness and to work out a compensation mechanism.

The Central Bank instruction makes it incumbent upon the banks to submit information monthly on transactions with individuals and to notify Central Bank institutions when payments on their debts are discontinued. Territorial administrations of the Central Bank must react to violations promptly and take appropriate steps. Apart from bank accountability, Central Bank institutions should react to information from law enforcement organs, the press, and letters from depositors.

The Central Bank also reaffirmed its intention to suspend banks' transactions with private individuals unless

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there is correlation between deposit commitments and the banks' own capital by the end of 1995.

Measures To Strengthen Oversight of the Activity of Commercial Banks Which Attract Deposits From the Public

1. Commercial banks are to provide a monthly accounting balance from transactions with individuals, beginning with the reporting for June 1995.

2. Main administrations (national banks) of the Russian Federation Central Bank must:

2.1. ensure that commercial banks notify the Main Administration (National Bank) of the Bank of Russia for their area of operation without delay when they or their branches discontinue payments on their debts (deposit contracts, savings certificates, bills of exchange, and other securities and bonds);

2.2. analyze monthly reporting on movement of funds in individual accounts in order to promptly reveal any failure by commercial banks to meet their obligations to depositors and implement the instructions of main administrations (national banks) on suspension of new accounts from the public in conformity with Bank of Russia Letter No. 154 of 24 March 1995 and Central Bank Directives No. 221-94 of 27 December 1994 with respect to an increase in a bank's own funds (capital);

2.3. when cases of commercial banks' failure to meet their obligations to depositors are revealed (according to results of the analysis of monthly reporting and information obtained from the commercial bank, law enforcement organs, the press, letters from depositors, and other sources), as well as when a bank's commitments with respect to public deposits exceed the amount of the bank's own funds (capital);

2.3.1. a conference must be held with the management of the council and board of directors of a bank to determine the reasons for failure to meet its commitments and for its insufficient capital and to determine steps to be taken to rectify the violations and develop measures to increase the bank's own funds (capital). At the same time, it has to be taken into account that in case the necessary correlation is not achieved by a commercial bank by the end of 1995, the Central Bank reserves the right to suspend a commercial bank's operations in attracting public deposits;

2.3.2. a decision must be made, in accordance with results of the conference, on the expediency of conducting a technical inspection of a bank, which should begin within a week of when that decision to conduct it was made;

2.3.3. when a violation of laws in effect by a commercial bank is revealed during the inspection, steps must be taken in conformity with Article 75 of the federal law "On the Central Bank of the Russian Federation (Bank of Russia)" and Bank of Russia Letter No. 154 of 24 March 1995; and

2.3.4. when the branches of commercial banks fail to meet their obligations to depositors, information on the violations revealed must be sent to the main administrations (national banks) of the Bank of Russia for the head bank's location.

*Machinebuilding Committee Hopes To Increase Exports in 1996

954E1096B Moscow SEGODNYA in Russian 8 Jun 95 p 4

[Report by Yevgeniy Spiridonov: "The Machinebuilders Plan To Double Exports of Their Output in 1996"]

[FBIS Translated Text] The Roskommash [Russian Federation Committee on Machinebuilding] has prepared a draft of the sector's program to develop exports of civil machinebuilding output for the 1995-1996 period. Realization of the program is based on an increase in the proportion of machinery and equipment in overall Russian exports next year from 5.3 to 10 percent. Yuriy Gorskiy, deputy chief of the Foreign Cooperation Main Administration of Roskommash, told this to a SEGODNYA correspondent.

In his words, the volume of civil machinebuilding exports in 1993, valued at $1.5 billion, dropped to $1.2 billion last year, but according to forecasts, exports may return to the 1993 level inasmuch as a rising trend—although a weak one—has been noted (by 1 percent in the first quarter of 1995, compared with the same period last year).

In order to develop this trend and bring about improvement in the structure of Russia's exports by increasing deliveries of machinery and equipment for the world market, however, enterprises lack sufficient funds to realize the plans for the most important export deliveries of machinery and equipment, to develop their export potential, and to develop new competitive products. Analysis of the most promising export plans proposed by enterprises shows that about $1 billion is needed to implement them in the 1995-1996 period. The enterprises are putting together only $302.5 million of their own funds. They are counting on receiving $372.2 million from domestic and foreign private investors. About another $400 million will be obtained with state loans (at 7

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to 10 percent). If this item of financing does not materialize, the volume of machinery and equipment exported in 1996 will add up to $1.7 billion at best. With the amount of state support stipulated by the program draft, it may be increased to $3.5 billion to $3.8 billion.

The program indicates that deliveries (under conditions of an international tender) of power engineering, electrical engineering, and road-building equipment for "Three Gorges," the largest hydroelectric power complex in China, will be the largest export projects in the coming years. The value of these deliveries for just the first section of the hydroelectric complex is estimated at $400 million. In the market for Southwest and Southeast Asia, the program provides for equipment to be shipped for the "Pontianak" GES [Hydroelectric Power Station] in Indonesia, large consignments of agricultural equipment for Iran and Iraq, and equipment for the (Xionghin) GES in Vietnam.

Mr. Gorskiy believes that some of the plans for development of machinebuilding exports should be included in the Federal Program for Development of the Russian Federation's Foreign Trade Activity, which is being developed at the same time by the MVES [Ministry of Foreign Economic Relations]. In the budget for 1996, it includes a separate paragraph for the first time stipulating the funds needed to develop the exports of industrial products. For this reason, the Roskommash has already presented, together with projects of higher priority, its proposals to the Ministry of Economics and Ministry of Finance stating what is needed to prepare the government's draft decree "On Measures for State Support and Development of Domestic Machinebuilding Exports." Mr. Gorskiy said the basic provisions which must be established in this decree include the extension of credit for industrial exports and the production of output that is export-oriented, state guarantees and counter-guarantees for conducting export operations, and insurance for export credits and operations.

***Land Purchase, Sale, Options Explored**

Duma Considers Land Code Again

954E1068A Moscow KRESTYANSKAYA ROSSIYA in Russian 5-11 Jun 95 No 21, p 1

[Article by Nikolay Kalinin: "To Sell or Not To Sell?"]

[FBIS Translated Text] I will recall: Last time (this was on 22 March of this year) the draft law did not get a sufficient number of votes. Deputies were only not unanimous on one—true, the main—question: concerning private land ownership. Communists and part of the agrarians voted against the draft, because it permitted the sale—although limited—of the land of agricultural organizations and private farmers. On the other hand, the Russia's Choice fraction demanded that all restrictions on the sale of any land, including land shares, be lifted and that economic interest be regarded as of paramount importance. Other fractions, for example, the Liberal Democratic Party of Russia and Yabloko, refused to vote at all.

As a result, the State Duma did not adopt any decision and the draft code "hung." Under these conditions the agrarian committee sent the draft law without any amendments to RF components for conclusion. Some 79 comments were received. A total of 46 RF components supported the draft concept and 12 RF components came out against private ownership of the land of agricultural organizations and private farmers. Only Krasnoyarsk Kray came out against the sale of citizens' small plots (including garden, dacha, and other plots). Except for St. Petersburg, no one permits the sale of land to foreigners.

The Duma Committee on Agrarian Questions, having generalized the conclusions received, introduced a number of substantial amendments to the draft law. For example, provision is made to prohibit the transfer of land for private ownership in cities, with the exception of plots for individual housing construction in small cities. It is proposed that a 10-year moratorium be put on the sale of the land of agricultural organizations, private farms, and large (in excess of 0.5 hectares) private subsidiary farms.

Land privatization in cities, where the land turnover is organized on the basis of leasing and of the sale of the right to conclude a leasing agreement, is prohibited and the right of perpetual (permanent) use and lifetime possession with the right of inheritance is introduced. It is proposed that state and municipal land be transferred for private ownership not on the basis of the administration order, but through the conclusion of a contract, which defines the duties of the parties, including concerning the prohibition of the sale of an undeveloped plot. The concept of "federal land ownership" is eliminated. Instead of it "land of federal significance" is introduced. The use of this land without coordination with the federation is not permitted.

Probably, the introduction of new restrictions and bans will make it possible to obtain additional votes of communists, agrarians, followers of Zhirinovskiy, and independent deputies. It is difficult to say whether they will be sufficient for the adoption of the Land Code. After all, even now it is clear that Russia's Choice and Yabloko will vote against it.

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Privatization Discussed, Lack of Register a Problem

954E1068B Moscow FINANSOVYYE IZVESTIYA in Russian 8 Jun 95 No 40, p iv

[Article: "Owners Will Soon Be Able To Manage Land"]

[FBIS Translated Text] Present land legislation, as during old times, is oriented toward plots for agricultural purposes. Normative acts say very little about the land of industrial enterprises, cities, and other settlements.

For a long time the development of market relations and the attraction of investments were hampered by the price of land on the primary market, which was too high for enterprises. A presidential edict sharply lowering the normative price of plots under privatized enterprises—from a 200-fold amount of the land tax to 10-fold—came out only recently.

The number of land owners (and, consequently, the scale of the land market as well) should increase after the introduction of the special privatization procedure for enterprises, which did not receive a payment for produced products from the state (according to some evaluations, the total budget debt to enterprises has reached 6 trillion rubles). Such debts will be legalized into special obligations and it will be possible to sell and mortgage them and so forth and to purchase land. A total of 87 percent of the income from the sale of land will go into regional and local budgets.

A group of experts submitted the draft law "On the Land of Cities and other Settlements" to the State Duma for consideration. The 150 articles of the document examine in detail questions concerning land deals in cities and the settlement of land disputes, define the rights of a limited use of land (servitudes), and describe the procedure and grounds for the termination of rights of land ownership.

Today "Basic Provisions of the State Program for the Privatization of State and Municipal Enterprises" remain some of the main normative acts regulating land relations. The main merit of this document lies in the fact that it prohibits the establishment of a specific method of use of a real estate facility or land plot, or the imposition of restrictions on land use. Such restrictions can be imposed legislatively. Main servitudes have been determined: Municipal services should be allowed access to a plot for the repair of infrastructure facilities and a gratuitous and unimpeded use of roads existing at the time of privatization is preserved. It is permitted to carry out the construction of new infrastructure facilities (laying of electric cables and water and gas lines), which can do damage to the owner, only on the basis of compensation.

From the legislative point of view Moscow's land market stands alone with respect to the Russian market. This is explained simply: It is impossible to be a land owner in the capital.

The present practice of ownership of land plots in Moscow presupposes the transition of the latter from the state of permanent use, in which land under the overwhelming majority of the capital's enterprises and institutions is now, into a leasing state. This transition can be made free of charge upon the application of any user. At the same time, however, the land plot is not a full-fledged facility of the real estate market. In order to ensure the possibility of transfer of the rights of leasing or use of the facility as a mortgage, it is necessary to undergo the buyout procedure.

Furthermore, land plots under municipal ownership, free or having a certain urban development assignment, in accordance with the plan for Moscow's development also should undergo this procedure. The Moscow Land Committee, which since 1993 has been organizing and conducting auction contests with the help of real estate firms having the Moscow government's license for the sale of rights to lease land plots and since December 1994 has been conducting such auctions independently, is the main character in this process.

Land plots put up for contests are located mainly in the outskirts of the city and a certain urban development assignment is given to each one. All this by no means promotes the attraction of investors. Furthermore, the actual absence of a secondary market also makes its negative contribution. The decision on the establishment of this market was approved by the mayor a long time ago. However, the necessary documents in no way go beyond the stage of coordination in various authorities. Realtors believe that this protracted process is only a reflection of the fight of Moscow municipal structures for spheres of influence. Nevertheless, contests to grant rights of long-term leasing of land plots continue.

The lack of a register seriously hampers land privatization. True, an agreement with the World Bank on a loan for the realization of the LARIS project (Land Reform Implementation Support Project) has finally entered into force. This international project for the establishment of a uniform state land register system in Russia has become part of the federal program "Automated Information System—Russia's Land." LARIS will extend to 10 oblasts—Moscow, Nizhegorod, Perm, Samara, Leningrad, Omsk, Rostov, Orel, Voronezh, and Tula. Plans are made to complete the project by the year 2000, spending 115 million dollars (including 80 million—a loan of the World Bank) on it.

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Enterprise Progress in Land Acquisition

954E1068C Moscow FINANSOVYYE IZVESTIYA in Russian 8 Jun 95 No 40, p iv

[Article: "Enterprises Acquire Ground Under Their Feet"]

[FBIS Translated Text] The privatization of land under private enterprises continues despite the virtually complete absence of federal norms. After the issue of presidential edicts on the establishment of the procedure for the sale of municipal enterprises and on basic provisions of state programs for the privatization of state and municipal enterprises local authorities have begun to develop their own programs for land privatization, which enable enterprises to finally become land owners.

From the practical point of view the buyout of land gives an enterprise many advantages: A plot can be used as a contribution to the authorized capital of joint-stock companies. This will make it possible to issue new shares and to attract additional monetary funds. Furthermore, an enterprise can sell surplus land on the secondary market not at the buyout price, but at a much higher market price. Finally, they can attract investors, including foreign ones, for whom privatized land is the main guarantee for the return of invested funds. Nevertheless, the sale of land plots makes up only 0.1 percent of the total sales of real estate facilities. A little more than 2 percent of the joint-stock companies have become land owners. At the same time, as long ago as 1994 more than 84 percent of the joint-stock companies expressed the desire to buy out plots.

The mayor of the northern capital, contrary to his Moscow colleague, ordered privatized enterprises to make a choice between the leasing and buyout of a land plot. First Vice Prime Minister Anatoliy Chubays commented on this situation as follows: "A very good experiment is now going on in our country: Moscow—a ban on the sale of land; St. Petersburg—the beginning of a real sale of land under privatized enterprises. The result in Moscow: The largest enterprises stand in line at the office of the minister of finance with the same problem—credits and subsidies. In St. Petersburg, as we have recently become convinced at the meeting of the federal commission on nonpayments, the situation is quite different."

In St. Petersburg the Property Fund will be the seller of land and the Committee on the Administration of State Property, the lessor. In the city the normative price of land is now differentiated throughout zones of urban development value ranging from 60,000 to 230,000 rubles per square meter. In the city's main industrial zone a hectare of land costs 1.4 billion rubles. At present the city property fund has more than 40 applications for the buyout of land.

In Yaroslavl Oblast six enterprises have already bought out land. For example, the Avtodorstroy Joint-Stock Company paid 46 million rubles for 100,000 square meters and the Poligrafiya Joint-Stock Company paid about 320 million for less than 5,000 square meters. During the privatization of land under these enterprises rising coefficients were used.

*Director Interviewed on Work of Federal Foodstuffs Corporation

954E1073A Moscow ZEMLYA I LYUDI in Russian 26 May 95 No 21, p 2

[Interview with Nikolay Semenovich Lazovenko, deputy general director of the Federal Foodstuffs Corporation, conducted by G. Vasilyev: "The Federal Foodstuffs Corporation Works in the Interests of the Peasants"; date and place not given]

[FBIS Translated Text] **In an effort to better meet state needs for agricultural output, raw materials, and foodstuffs, the Government of Russia Decree No 1,121 dated 3 October 1994 created the Federal Foodstuffs Corporation under the RF Ministry of Agriculture and Food. As the state buyer, it is expected to provide the necessary volumes of purchases and deliveries to federal and regional funds for grain, sugar beets, oil crop seeds, long-stemmed flax, potatoes, vegetables, livestock and poultry, milk, wool, and other products for which state orders are established, as well as to organize export-import operations involving foodstuffs.**

[Lazovenko] [In a conversation with our correspondent G. Vasilyev, the deputy general director of the Federal Foodstuffs Corporation, Nikolay Semenovich Lazovenko, noted:] We are resolving this task along with our regional organs in local areas on a fundamentally new legal and economic basis. Our relations with commodity producers are regulated by the federal law adopted at the end of last year, "On Purchases and Deliveries of Agricultural Output, Raw Material, and Foodstuffs for State Needs." It stipulates among other things the conditions for concluding contracts with commodity producers and the mutual obligations and responsibility for fulfilling them. In other words, the contracts have acquired the force of law.

[Vasilyev] Just what exactly has changed in the organization of state purchases of agricultural output?

[Lazovenko] We are now making for the most part futures deals with the producers of crop-farming output,

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that is to say, we are concluding contracts for the future harvest. And we are paying them an advance of at least 50 percent of the value of the volume of contract deliveries, which includes 25 percent after concluding the contract and 25 percent after completing the planting. In that way, farms are now able to obtain the necessary capital and use it to acquire the fertilizer, fuel, and spare parts needed to do the planting and raise the crops.

As for animal husbandry output, its suppliers are guaranteed subsidies from the budget to ensure it is profitable to produce.

This year for the first time, guaranteed prices have been set on the output bought for state needs to ensure that material expenditures are reimbursed and the commodity producer obtains enough income for expanded reproduction. I will give the amounts of these purchase prices for a number of types of output. So, 325,000 rubles [R] is suggested for a tonne of 3d class hard wheat, R210,000 for food-quality rye, R600,000 for standard buckwheat, and R100,000 for sugar beets, while R650,000 is suggested for a tonne of grade A milk of base fat and protein content, R2.5 million for average fat cattle in live weight, R3.6 million for a tonne of live weight poultry, and R180,000 for 1,000 eggs.

[Vasilyev] Taking into account the continuing inflation in our country, these prices cannot remain the same. Otherwise, farms' production costs will not be reimbursed.

[Lazovenko] This level of guaranteed purchase prices was set for the first quarter of this year. And depending on inflation and the market conditions which develop, they will be indexed every quarter. And as goods become more expensive, we will fully compensate farms for the difference between the initial guaranteed prices which the advance paid was based upon and the prices operating at the moment the output was bought.

But guaranteed purchase prices and advances are not the only levers which we use to help replenish the federal and regional funds. For farms which have formalized contracts to deliver output to these funds, fuel and lubricants supplied against commodity credit (at 10 percent annual interest) are allocated and supplied on a top priority basis. Moreover, the government sought and allocated to us more than R980 billion worth of capital, which we used to acquire 800,000 tonnes of mineral fertilizers and 11,000 tonnes of plant-protection chemicals. They are also designated for rural commodity producers who supply output for state needs.

We are also actively using economic stimuli for farms such as organizing the purchase of equipment on a leasing basis. Here the rural commodity producer acquires a particular machine and first pays, for example, only 20 percent of the capital of its cost, and pays off most of it over a number of years.

As you have obviously already learned, we put the main emphasis on economic methods in our work to satisfy federal and regional foodstuff needs. The basis of these methods is the mutual interest and reciprocal responsibility of the parties to deliver output.

[Vasilyev] Incidentally, about responsibility. What economic sanctions are envisioned for violating the obligations accepted in the contract?

[Lazovenko] Let us take, for example, the commodity producer who supplies the output. If he does not fulfill the obligations properly, he can in full or in part lose the right to obtain special purpose subsidies and supplementary payments, credits under preferential conditions, and allocations from the federal budget. In the event the contract on volume of purchases and delivery of raw material and output for state needs within a set time is violated, the guilty party pays to the other side a penalty of half the value of the output not delivered or not accepted. The sanctions are quite harsh. But that is not the point.

The most important thing in our activity is to use the granting of definite guarantees, privileges, and support in realizing output to protect the domestic commodity producer and ultimately to improve the availability of foodstuffs at prices accessible to the population. Today there are a lot of middlemen between the commodity producer and the consumer. They include various TOO's [limited liability partnerships] and commercial structures which successfully jack up prices quite appreciably. Because of them, retail prices for food products are often twice as high as enterprises' release prices. By building its relations with producers and consumers directly, the Federal Foodstuffs Corporation creates the essential prerequisites for substantially reducing the number of these middlemen and additional expenditures for "services" involving them.

We, of course, are not abandoning cooperation with such well-known organizations which have considerable experience in buying output as the AO [joint stock company] Roskhleboprodukt [Russian Grain Products] and the AO Plodoprom [Fruit Industry]. Not state buyers, they can perform the role of our contractors on a mutually beneficial basis.

In an effort to support prices on a normal level, we will also actively use an important market mechanism for their regulation such as foodstuff interventions. But to do this, it is important to have an adequate reserve

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of food in state funds. Otherwise, we cannot rule out situations like the one which occurred at the end of last year and many people remember. At that time butter disappeared from sale, and then a short time later it became several times more expensive. If last year state structures had been concerned in advance about the needed reserves of butter, there would have been no sharp increase in price.

Naturally, given the unstable economy, even the Federal Foodstuffs Corporation cannot fully guarantee that such situations will not be repeated in the near future. But the work to protect the domestic producer and consumer which our organizations perform is having positive results even now. Thus, by mid-April, we had concluded contracts to deliver 8 million tonnes of edible grain and 2.7 million tonnes of sugar beets to the federal fund alone. Allow me to say for comparison that last year in all only 12.1 million tonnes of grain and 881,000 tonnes of sugar beets were procured for the federal and regional funds. So there is reason to assume that things will get better in terms of purchases of food for state needs.

*Reforms Have Not Resolved Grain Production, Availability Problems

954E1074A Moscow ZEMLYA I LYUDI in Russian 26 May 95 No 21, p 3

[Article by Prof. A. Belozertsev, doctor of economic sciences: "Russia's Grain"]

[FBIS Translated Text] **Grain is a great creation of nature and of the human genius. In the world there are not many values, which can be compared with grain. It is irreplaceable. The demand for grain as the basic food product is permanent and does not depend on the price level and the amount of expenditures. An increase in grain production, preservation of the grown harvest, efficient utilization of grain resources, formation of a grain market, and creation of economic conditions for an increase in land fertility are matters of paramount importance. Only an increase in the production of our own food, not the import of and trade in foreign goods, can extricate the country from the serious economic crisis.**

Production

The gross output of grain in Russia in the 1980's had a stable tendency toward growth, despite the fact that sown areas decreased from 75.5 to 63.1 million hectares, averaging 104,300 tonnes annually—57 percent more than in 1956-1960. In 35 years the production of wheat increased by 22.6 percent and of barley, 4.6-fold. The gross output of rye and oats also increased.

In the structure of grain production wheat occupied 43.9 percent, barley, 27.1 percent, oats, 11.7 percent, and rye, 9.2 percent. Consequently, these four crops accounted for 91.9 percent of the gross output of grain and pulse crops, corn, millet, buckwheat, and rice made up only 8.1 percent. Bread grain accounted for more than one-half—55.6 percent—of the grain produced in Russia and forage grain, for 38.8. In the United States the proportion of bread grain made up 23.4 percent and of forage grain, 74.6 percent.

An analysis of average long-term data shows that during those years the productivity of the grain field rose from 9.2 to 15.9 quintals per hectare. The yield of wheat increased to 17.7 and of barley, to 15.7 quintals per hectare. The productivity of the rye field amounted to 16.4 quintals per hectare. Thus, during a 35-year period a stable tendency toward the growth of the productivity of arable land is visible. Although, on the whole, the rates are not high, nevertheless, in the last few years, owing to the intensification of farming, marked shifts have occurred in this direction. The application of mineral fertilizers to grain crops increased from 8 kg in 1965 to 81 kg per hectare in 1990 and of organic fertilizers, from 0.6 to 3.3 tonnes per hectare.

The increase in fertility has had a positive effect on the production and consumption of food products. In 1990 the per-capita consumption of meat and meat products in terms of meat totaled 75 kg, of milk and dairy products in terms of milk, 396 kg, of eggs, 307, and of vegetable oil, 11 kg. Average state retail prices were within the reach of a broad mass of the population.

During the 1990 the productivity of the grain wedge declined to 14.4 quintals per hectare. The yield of barley, oats, and rye decreased by 4.5 to 24.9 percent. The gross output of grain dropped from 116.7 million tonnes in 1990 to 81.3 million tonnes in 1994. Simultaneously with this, the per-capita consumption of meat, milk, and eggs dropped and the purchasing power of the population decreased sharply, which was the result of the rash economic policy.

Thus, Russia's grain farming is characterized by a reduction in sown areas, a drop in the yield, and a decline in production.

Use of Resources

Grain is a universal product. A considerable part of it is used for food, bread baking, and production of macaroni, confectionery, and various hulled and rolled products. A large quantity of grain is assigned for the needs of animal husbandry as concentrated feed for livestock, hogs, and poultry. Part of the harvest of grain crops is

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subject to industrial processing for the production of alcohol, starch, and other products. For example, the following data point to the amount and structure of grain use in Russia: In 1992 gross output totaled 106.9 million tonnes and consumption, 117.7 million tonnes, or 10.1 percent more than what was produced. Then the shortage was replenished through the import of 26.9 million tonnes of grain. The consumption structure looked as follows: A total of 31 million tonnes were used for production purposes; 61.1 million tonnes, for feed for livestock; 21 million tonnes, for seeds; 3.6 million tonnes, for industrial processing. Thus, more than one-half of the grain reserves were used for feed for livestock and poultry. It should be stressed that, usually, it gets into feeders either in coarsely ground form alone, or in the form of mixed feed not balanced in protein and other nutrients and trace elements.

As is well known, the feeding of concentrated feed not balanced in protein and amino acids, inevitably, leads to a significant overexpenditure of forage grain per kg of obtained milk or weight gain. The shortage of plant protein in rations of animals, which has already been felt acutely over many years, urgently requires an increase in the production of high-protein crops—peas, lupin, and lentil. However, their production remains insignificant. Moreover, in the last 10 years the proportion of pulse crops has declined from 4.1 to 2.4 percent.

In Russia, owing to the shortage of forage grain, wheat is used for feed, which, obviously, is unjustified. After all, wheat grain is characterized by a low content of protein and irreplaceable amino acids. The solution of the problem is seen primarily in an expansion of areas sown with corn for grain by moving this crop to northern regions. Of course, breeders should provide significant assistance in this, although even now there are quite early-maturing hybrids and effective grain corn cultivation technologies.

Losses of grain during harvesting and storage, which are still very great, must be discussed especially. The shortage of combines leads to the prolongation of harvesting periods and does not make it possible to fully gather the grown harvest. To this should be added the acute shortage of modern machines for grain cleaning and drying, especially during the harvesting period, when large grain masses are accumulated on threshing floors. Grain processing drags out, owing to which it loses its quality. Farms also experience a shortage of storage facilities. Grain is often poured into premises not adapted for storage.

Thus, an inefficient use of grain and great losses are the main reasons for its shortage. It should be made clear that we will not feed our country with bread of domestic production as long as we do not have a modern industry for the harvesting, storage, and sale of grown products.

Import

It must be admitted that at present the demand for grain is not met by domestic production. The long-term import of large volumes of grain from abroad has depleted the state treasury, has led to the disruption of the credit and financial system, and has intensified inflationary processes. Whereas in 1970 import in the former USSR totaled only 2.2 million tonnes, in 1980 it totaled 27.8 million tonnes, and in 1990, 40 million tonnes. During 1991-1993 a total of 60.2 million tonnes of grain worth 10.5 billion dollars were imported into Russia.

As is well known, grain import, in addition to material costs, also does perceptible moral and political damage to the state: The country becomes dependent on exporting powers.

There is another aspect of this problem. There is a big difference between foreign and domestic Russian grain prices. Whereas in 1993 the state paid 46,700 rubles per tonne of grain to its commodity producers, it bought it for 140 dollars on the world market. At the then rate of the dollar in relation to the ruble the difference in prices was six-fold. Consequently, Russia helped foreign farmers and ruined its own peasants. It is not surprising that in the United States and Canada there were always credits for the support of Russian import of grain and other agricultural products. As a result, the import of a large amount of food from abroad blocked the road to sales markets for Russian producers. In many respects this also led to a reduction in gross grain production.

Under these conditions the way out of the difficult economic situation for domestic commodity producers is seen primarily in an increase in the production of wheat with a high content of protein. That is, we must succeed through quality. In this case it is possible to put an end to the import of food grain. It is also necessary to increase the gross output of corn grain. This will also make it possible to completely give up the import of forage grain.

Market Formation

State monopoly of trade in grain existed in Russia for many years. For years the procurement, storage, processing, and distribution of grain resources were carried out by state officials, who kept farmers out of the free market and impeded the sale of grain products at higher prices. All this hurt peasants' interests and hampered the formation of a grain market.

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Significant changes have occurred now: Prices have been released and obligatory deliveries of grain to the state have been abolished. Under market conditions the formation of grain prices occurs on the exchange. The efficiency of grain production and its further development depend on how the exchange mechanism, which takes the interests of commodity producers into consideration, is worked out. The price arising on the exchange is formed according to free market laws with due regard for supply and demand. Therefore, the formation of trade in grain by means of exchanges and the transition to new methods of sale of products will make it possible to master the secrets of the market and to ensure mutually advantageous trade.

Of course, this is not a matter of one day—a long grinding of the market mechanism is ahead. At the same time, it will be necessary to eliminate obstacles on the path to a fair exchange, which will largely depend on the efficient functioning of banks and arbitration tribunals.

The market is not an end in itself, but a means to an end, which an increase in the production of food products and an improvement in the people's living conditions are. The concept of the market as an unregulated, spontaneous system is erroneous. In countries with an established grain market the state plays a big role in the regulation of the production and sale of products.

For example, in the United States and Canada, owing to state regulation, grain producers are able to ensure the necessary income level, to use new equipment and advanced technology, and to carry out restructuring with due regard for market conditions. State regulation of the grain market is based on economic measures of effect with the use of such economic categories as price, taxes, subsidies, and credits.

State regulation and active state intervention in grain production and sale are also applied in countries of the European Community. They are aimed primarily at efficiently ensuring income and selling products at acceptable prices. The state annually revises minimum grain prices, thus protecting commodity producers against a sharp drop in prices of products.

In our country the state is also called upon to protect the domestic grain market. The mechanisms are known. It is a matter of introducing customs duties, raising taxes on grain import, and ensuring the sale of agricultural products. Unfortunately, the state has withdrawn from the solution of problems of efficient production and of the use and sale of grown products. Commodity producers are in a desperate situation. They cannot sell their products at prices ensuring profit, owing to which the production of domestic grain, meat, and milk dies away.

The formation of a grain market in Russia requires an improvement in the management system. The disunity of various departments hampers the solution of the problem of self-provision. Economic policy in the area of grain farming has not been worked out in the country. Unification of the economic interests of those that produce grain, procure, store, and process it, trade in bread, and substantiate the amount of import will make it possible to speed up the formation of a grain market. From my point of view, it is necessary to establish in the country a scientific production center for an overall solution of grain problems.

Economic Conditions

The economic crisis that has enveloped agriculture is the consequence of the policy begun by Ye. Gaydar and his team. The ill-considered price liberalization has had a destructive effect on farming and animal husbandry. Agricultural production is being stifled primarily by the exorbitant prices of machines, fertilizers, fuel, and plant protectants, high taxes, and credits beyond one's means. Forms of ownership and methods of management are being imposed on rural areas from above, without consideration for peasants' opinions, land fertility is being destroyed, and the replacement of equipment and application of advanced crop cultivation technologies are not permitted.

In order to ensure the process of creation, not of a general destruction, of agricultural production, it is necessary, first of all, to introduce order in price formation. This is the main and most important thing in the matter of the advance of the rural economy. It is necessary to set a parity of prices of agricultural and industrial products, to strengthen their stimulating role in production stabilization and in an improvement in the quality of products, and to ensure guaranteed prices of agricultural products sold on the basis of contracts.

The implementation of reform in Russian rural areas, essentially, was based on the transformation of forms of ownership and management. Problems of sales of produced products have remained unsolved, owing to which numerous middlemen, who appropriate most of peasants' receipts, have appeared. Such an abnormal situation strengthens even more the monopolism of those that store and process raw materials and trade in products produced in rural areas.

The state is called upon to help peasants to plow land and to grow grain. Unfortunately, for now the state remains the main extortioner hampering production

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stabilization. Peasants are not paid for sold products for several months. Grain farmers are deprived of the possibility of increasing output without a loss for themselves and their interest in fields and farms is killed. All this leads to a significant reduction in crops and to a sharp drop in the livestock population.

The way out of the most difficult crisis, in which rural areas find themselves, lies in the creation of favorable conditions for the growth of labor productivity as the basis for the revival of agricultural production, change in economic policy with respect to rural areas, and improvement in price, tax, and credit systems.

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National Affairs

*Presidential Hopefuls Test Waters

954K0620A Lvov POST-POSTUP in Ukrainian 2-8 Jun 95 No 21, p 2

[Article by Maryana Chorna: "The Directors Have Developed a Dislike for the Authorities. There Will Certainly Be a New Election"]

[FBIS Translated Text] **Not even a year has passed since the presidential election, but the former and, perhaps, future presidents have begun to criss-cross Ukraine seeking to commune with the people more closely. A few days ago, Leonid Kravchuk visited the Lvov area in order to reconquer lost ground. Leonid Makarovych complained in front of the cameras of Lvov television: "One can win favor with Galicians simply by speaking Ukrainian. However, undemocratic statements may also be made in Ukrainian." He did not give names but it was clear who he meant anyway.**

Leonid Kravchuk and the Understanding association created by him have now fallen on hard times. The once avid supporters have scattered. As reported by Post-Inform, URP [Ukrainian Republican Party] Honorary Chairman Levko Lukyanenko stated in Kharkov: "I advocated electing Kravchuk, but now I believe that it was good to have Kuchma elected. Kravchuk did nothing to reform the economy." Even the faithful Larysa Skoryk somehow shows in her OPOZYTSIYA more of an unexpected interest in Oleksandr Moroz than in Leonid Makarovych. In a word, the Understanding project as national-democratic opposition to the policy of Kuchma has not quite worked out. This is why the residents of Lvov are by far neither the first nor the last who have or will have an opportunity to flirt with Leonid I.

Volodymyr Lanovyy had suddenly got the itch to travel two months before the ex-president did. He began as early as March in Donetsk, and subsequently visited Dnepropetrovsk, and recently Kharkov. These visits associated with the Adenauer Foundation seminar "Emergence of Democracy in Ukraine" caused a great interest among businessmen. Interestingly, these steps strike a chord even with the "entrepreneurs," that is, a certain segment of the mighty directorate of Left-Bank Ukraine, perhaps because the current condition does not thrill them in any way. They are quietly cursing the Kievan Olympus, there in the entrails of the business community squeezed by taxes and of directors' groups shocked by the critical levels of payment arrears. In Kharkov, they are already cursing outloud and beginning to stage mini-revolutions. Recently, the Kharkov Velozavod Research-Production Association blocked all traffic in protest. The ill-wishers are saying that the president got a great many unpleasant impressions at a meeting which preceded the opening of the subway. The interest shown by the ex-president and the ex-contender does not appear random against this background, nor does yet another trip by Lanovyy (the second in as many months) to Donetsk, where miners, the eternal nemesis of the Ukrainian authorities, have been "discovered" yet again.

That the Governor of Dnepropetrovsk Lazorenko suddenly stepped up his activities and once again showed up in the media is the most curious point. To be sure, Lazorenko did not appear on the list of 1994 contenders but he is very popular with the large-industry barons of the Dnieper area and with the agrarians. A few years ago, his name was mentioned as a possible alternative to Kravchuk along with Kuchma. There is no telling whether or not yesterday's allies of Leonid Danylovych, such as Symonov from the Fianit company and other leaders of the Dnepropetrovsk "special territory," will switch sides yet again.

The fact that everybody started fussing at the same time and began visiting territories where the popularity of the government is the lowest, and prospects for their victory in the course of unforeseen circumstances are the best, gives food for thought. Lanovyy is looking for an "understanding" with the large urban metropolitan areas of the east which are disappointed in Kuchma from every point of view, because there is neither the reform, which the more intelligent ones wanted, nor the union, a fight against the mafia, or cheap sausage, which the less intelligent wanted. Kravchuk is eyeing the west, wishing, of course, to find out to what degree the reform talk is capable of replacing the statehood talk and whether a key to the hearts of Galicians can again be found. As far as Lazorenko, he is offering himself to the attention of respectable agrarians as a kindly father figure.

This means just one thing: Quite a few things in our kingdom are not right because, however you slice it, close to one-half of the people do not know how they will pay for gas, one enterprise in three is idle, the payment of wages is not envisioned, and it is not quite clear what to do next. Under the circumstances various outcomes are possible. It could have blown over somehow if only the dissatisfied people were at issue. However, there is another aspect to this: The ranks of the dissatisfied are rapidly growing among the economic elite, too. It appears that everybody is beginning to boil over little by little—mine directors and the metallurgical complex, electrical engineering and machine building industries, villages and towns. This is to say nothing about the military-industrial

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complex which, despite all promises, is as idle as can be. A Ukrainian folk belief says that authorities who the directors have developed a dislike for will not last long. In his time, Leonid Kravchuk was improvident enough to quarrel with directors, and so a congress of the Ukrainian Union of Industrialists and Entrepreneurs was held, at which Kuchma was elected chairman. It is known what happened next. It is likely that a third congress of this esteemed civic organization may be held with unforeseen consequences, while Leonid Kravchuk travels from Lvov to Donetsk and Lanovyy—from Donetsk to Lvov.

Crimean Parliament Seen as Untrustworthy

954K0621A Kiev MOLOD UKRAYINY in Ukrainian 8 Jun 95 p 1

[Article by Hryhoriy Yoffe, Crimean Branch of the Ukrainian National Center for Political Research: "Such an Embarrasment"]

[FBIS Translated Text] The auditorium of the Supreme Soviet of the Crimea looked like a large time machine. It was launched by pressing "In favor" buttons on the deputy consoles of the "Council" system. The parliamentary majority consisting of the Russia and Russia-Unity factions pressed these buttons in unison and...all residents of the Crimea ended up in September 1992. Having first canceled the referendum they had thought up, the deputies of the bloc which won last year accepted in the main the draft Crimean constitution written on the basis of the Main Law of the Autonomous Republic in its redaction as of 25 September 1992.

It is never a pleasure to lose. It is doubly so if one has already trumpeted victory without waiting for the outcome of the fight, and then it is an outright shame when one has to throw himself on the mercy of the victor. When the Supreme Soviet of the Crimea led by M. Bagrov met the requirements of Kiev and passed a constitution in line with these requirements in September 1992, it was not shameful. At the time, the deputies took a sober view of themselves and their forces.

The new membership of the Supreme Soviet of the Crimea which for the most part came in under the banners of the Russia Bloc did start a fight, after all. It immediately canceled the "Bagrov-Kravchuk" constitution and enacted its redaction of 6 May 1992.

The fight (if unilateral actions by the Crimean legislators can be called a fight) went on. The Crimea got itself its own minister of the militia and its own chief of the security agency; the young men of the Crimea came close to believing that by a "magic wish" and someone's desire they would serve in the army solely along the Southern Coast.... The deputies passed all kinds of resolutions, asking for a slap from Kiev.

At that point, the OSCE [Organization for Security and Cooperation in Europe] opened its representative office in Simferopol, albeit with great difficulty, and recommended that the new authorities respect the laws of the state to which the Crimean autonomous units belongs regardless of isolated wishes and desires.

After being knocked down in March of this year and left without any power or even the constitution itself, the "fearless" Crimeans tried to get on their feet by drawing on the referendum and the promised support from the likes of Zatulin and Baburin, and Zhirinovskiy. Regardless of my personal attitude toward the concept of the referendum and my feelings as I listened to Russian "state-ists," I admired the martial spirit of the parliamentary "Bolsheviks" as I looked at the determination with which they fought. No, I did not know that they would lose but for some reason I was certain that if they did, they would leave the political arena with their honor intact.

Was I wrong! Everything happened the other way around. Applause was heard in our parliament after a presentation by Mr. Kohlschutter, the main OSCE chief in Ukraine. He urgently recommended that no referendum be held, and that such a constitution be written which would not violate the sovereignty of Ukraine or contradict its laws. Upon applauding, the deputies passed without discussion the decisions which comply fully with the resolution of the Supreme Council of Ukraine of 25 May 1993.

Could it be that S. Tsekov and his deputy V. Klychnikov were influenced to such a degree by the atmosphere prevailing at a "roundtable" meeting in Switzerland? Kohlschutter called it the "magic of Locarno." Could it be that these "steadfast" parliamentary fighters all of a sudden became enamored of the Organization for Security and Cooperation in Europe and are prepared to carry out any of its recommendations unconditionally?

Of course, it is not so. The OSCE with its recommendations was used as a screen concealing the deputies, with the fear of losing cozy jobs written all over their faces. Their martial spirit turned out to be plain bravado, and their courage was based on certain support from the national-patriots in the Duma. The white flag was run up when the deputies understood that their own forces were clearly inadequate, that support was somehow illusory, and that in such a case the fight could end up in a knockout which, while not lethal, would be very painful.

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In and of itself, this is legitimate. However, how will it be viewed by those Crimeans who, in electing Meshkov and the like-minded people, believed their fairy tales about a bright Russian future for the Crimea and admired the power of the heroes of rallies and their devotion to principles? Could there be someone who has not appreciated the full scale of the spinelessness of the parliamentary majority now that the remnants of the Russia bloc are reversing their policy completely, feverishly clinging to their seats and wishing to extend, even if just a little, the illusion of holding power and hanging on in the process to quite real rather than illusory privileges?

I feel strange as I comment on the embarrassment which befell the recent victors in the power struggle. Am I to be happy? The adopted decisions will undoubtedly stabilize the situation in the Crimea, and the people will finally understand who is who. It is so indeed. It is just that there is no certainty that those who now have to beat swords into plowshares will not drag the residents of the Crimea into a new fight tomorrow. Let us think and estimate what such a grudge fight would cost the Crimea, all the more so that, knowing the inclinations of local "fighters" who can surrender at any moment and switch sides, the Crimeans have no guarantee against a new cycle of confrontation with Kiev.

Deputy Podkopayev, the leader of one of the Russia factions, hissed toward the seats of the press: Be quiet, you are guests here, he said. The failure of the deputy to understand that journalists work in the auditorium and discharge their professional duties is not very strange. The comrade just does not understand. Something else is dangerous: The leader of the faction which has been jokingly renamed Ukraine in the lobby of the session is convinced in earnest that the deputies are masters of the Supreme Soviet and everyone else is a guest. However, I did not invite myself to Mr. Podkopayev's place. He was the one trying to convince me and other Crimean voters to let him into the auditorium and believe his promises. So, who is the master in the Crimean house? It appears to me that the master is the one who entrusted Podkopayev and his associates with soft armchairs and well-lit offices with secretaries and aides, official cars, and the right to press a particular button. The master did not spare his hard-earned money, of which he never has enough, so that those who had promised to get all the unfortunates out of trouble would not want. The master is good and gullible, hence the embarrassing situation.

Text of Constitutional Agreement

954K0622A Kiev HOLOS UKRAYINY in Ukrainian 10 Jun 95 pp 3-4

[Text of agreement]

[FBIS Translated Text]

Constitutional Agreement Between the Supreme Soviet of Ukraine and the President of Ukraine on the Fundamental Principles for the Organization and Functioning of State Power and Local Self-Government in Ukraine Until the Adoption of a New Constitution

The Supreme Soviet of Ukraine,

as the sole legislative body, on the one hand, and

the President of Ukraine,

as the head of state and head of executive authority, on the other hand, that is

the Parties,

who are subjects of constitutional law that have obtained their authority directly from the people,

proceeding from the fact that

—the absence of a new democratic Constitution for Ukraine is a restraining factor on the path of economic as well as political and state-legal reforms;

—the rejection of the Law of Ukraine "The Applicability of the Law of Ukraine 'State Power and Local Self-Government in Ukraine and Changes in the Constitution (Fundamental Law) of Ukraine in Connection With Its Adoption,'" aimed at the realization of the provisions of the Law of Ukraine "State Power and Local Self-Government in Ukraine," makes impossible the proper functioning of the entire state mechanism both in the center and in the local areas, hinders the pursuit of economic reforms and leads to a further impoverishment of the overwhelming majority of the population and a worsening of social conflicts;

—the presence of profound economic, as well as political, crisis is leading to social tensions in society, its criminalization and to the political confrontation of power structures,

for the purpose of

—reducing the discrepancies between the prevailing norms of the Constitution (Fundamental Law) of Ukraine and the norms of the Law "State Power and Local Self-Government in Ukraine" and the entry of that Law into the system of legislation that defines the constitutional order of Ukraine;

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—further ensuring the development and successful completion of the constitutional process in Ukraine,

have sought to

—ensure the proper protection of the rights and freedoms of the person and the citizen under crisis conditions;

—create solid guarantees of the existence of a sovereign Ukraine, and ensure the integrity and inviolability of its territory;

—reform state power based on principles of the clear-cut delineation of functions between the legislative and the executive branches as an essential precondition for overcoming the economic, social and constitutional crisis;

—create the political-legal conditions for the implementation of economic reforms, the maintenance of production and the assurance of financial stability and social protections for the population;

—avoid the political confrontation of power structures, with possibly ruinous consequences for the fate of the entire country and society;

—ensure civil peace and calm in Ukraine and create conditions for the fitting life and work of people and the consolidation of all of the healthy forces of society,

taking into account

the positive gains that have been won in the prolonged process of bringing the positions of the President of Ukraine and the Supreme Soviet of Ukraine into agreement during work on the draft Law "State Power and Local Self-Government in Ukraine,"

based on

the good will of both sides and mutual concessions and compromise,

have agreed that:

The organization and functioning of the bodies of state power and local self-government, for the period until the adoption of a new Constitution of Ukraine, will be accomplished based on the principles defined by the Law "State Power and Local Self-Government in Ukraine" that was approved by the Supreme Soviet of Ukraine on 18 May 1995 by a majority vote of the people's deputies of Ukraine, to wit:

Section I

GENERAL PROVISIONS

Article 1.

Ukraine is a democratic, social and law-governed state that was created on the basis of the exercise by the Ukrainian people of their sovereign right to self-determination, expressing the will of the people and protecting the interests of its citizens.

The principle of the supremacy of the Law is in force in Ukraine.

Article 2.

All power in Ukraine belongs to the people. The people are the sole source of power and exercise it directly through referendums, as well as through the system of state bodies and bodies of local self-government.

No one may arrogate to himself the right to exercise state power.

Article 3.

State power in Ukraine is founded on the principles of its delimitation into legislative, executive and judiciary.

Article 4.

Local self-government in Ukraine is exercised through the territorial self-organization of citizens directly and through the bodies of local self-government. The bodies of local self-government are elected directly by the citizens of Ukraine who reside on its territory by city, village or town.

Article 5.

All bodies of state power and bodies of local self-government in Ukraine exercise their authority proceeding from the priority of the rights and freedoms of the person. The assurance of those rights and freedoms and the protection of the life, honor and dignity of the person are obligations of the state.

Social life in Ukraine is based on principles of political, economic and ideological diversity.

Ownership in Ukraine is nationwide, communal, collective and private.

The law guarantees equal protection of all forms of ownership and the social thrust of the market economy.

Section II

THE SUPREME SOVIET OF UKRAINE

Article 6.

The Supreme Soviet of Ukraine is the sole legislative authority of Ukraine, and is made up of 450 people's deputies who are elected for four years on the basis of universal, equal and direct voting rights by secret ballot.

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The regular elections of people's deputies of Ukraine are conducted in the first week of April after the completion of the four-year term of authority of the prior composition of the Supreme Soviet of Ukraine.

The forthcoming elections of the people's deputies of Ukraine are conducted using a mixed majority-proportional system.

The procedure for the conduct of elections of people's deputies of Ukraine, determination of their results and recognition of their authority are accomplished according to the Law of Ukraine "Election of People's Deputies of Ukraine."

The status of the people's deputy of Ukraine is defined by the Law of Ukraine "The Status of the People's Deputy of Ukraine."

Article 7.

The Supreme Soviet of Ukraine performs its work in sessions.

Sessions of the Supreme Soviet of Ukraine are composed of plenary sessions of the Supreme Soviet of Ukraine, as well as sessions of the standing and other commissions that are held during the period between plenary sessions.

The Supreme Soviet of Ukraine assembles for its first session on the thirtieth day after the holding of elections, by announcement of the Chairman of the Central Election Commission.

Regular sessions are convened by the Presidium of the Supreme Soviet of Ukraine. Extraordinary sessions are convened by the Chairman of the Supreme Soviet of Ukraine or the Presidium of the Supreme Soviet of Ukraine, at their initiative or by proposal of not less than 1/3 of the composition of the Supreme Soviet of Ukraine or at the initiative of the President of Ukraine.

The Supreme Soviet of Ukraine operates according to the Procedures of the Supreme Soviet of Ukraine, which have the force of law.

Article 8.

The Supreme Soviet of Ukraine elects standing commissions from among the people's deputies of Ukraine, which perform draft legislative work and perform direct oversight and preparation of issues that fall under the jurisdiction of the Supreme Soviet of Ukraine, as well as monitor the fulfillment of laws and decrees of the Supreme Soviet of Ukraine, in accordance with the Law of Ukraine "Standing Commissions of the Supreme Soviet of Ukraine" and the Procedures of the Supreme Soviet of Ukraine. The Supreme Soviet of Ukraine may create deputies' investigative, audit and other commissions on issues that fall under the jurisdiction of the Supreme Soviet of Ukraine whenever it deems it to be so necessary.

Article 9.

The Chairman of the Supreme Soviet of Ukraine, his deputies, the chairmen of standing commissions and heads of groups of deputies or factions of the Supreme Soviet of Ukraine constitute the Presidium of the Supreme Soviet of Ukraine.

The presidium of the Supreme Soviet of Ukraine is a body accountable to the Supreme Soviet of Ukraine that exercises its authority within the limits stipulated by this Law.

Article 10.

The Presidium of the Supreme Soviet of Ukraine:

1) convenes the regular sessions of the Supreme Soviet of Ukraine;

2) organizes the preparations for sessions of the Supreme Soviet of Ukraine;

3) coordinates the activity of the standing commissions of the Supreme Soviet of Ukraine;

4) assists the people's deputies of Ukraine in the exercise of their authority, and provides them with necessary information;

5) organizes the conduct of nationwide discussion of draft laws of Ukraine and other acts of the Supreme Soviet of Ukraine;

6) organizes the publication of the laws of Ukraine and other acts adopted by the Supreme Soviet of Ukraine and the Presidium of the Supreme Soviet of Ukraine in the Ukrainian and Russian languages, and furthers the publication of those acts in translations into other languages that are used by the majority of the population of the corresponding localities of Ukraine.

The Presidium of the Supreme Soviet of Ukraine adopts decrees on issues that fall under its jurisdiction.

Article 11.

The Chairman of the Supreme Soviet of Ukraine and his deputies are elected from among the people's deputies of Ukraine by secret ballot for the effective term of the Supreme Soviet of Ukraine. They may be recalled at any time by means of secret ballot by the Supreme Soviet of Ukraine.

Article 12.

The Chairman of the Supreme Soviet of Ukraine:

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1) exercises overall supervision of the preparation of issues that are being considered by the Supreme Soviet of Ukraine;

2) represents the Supreme Soviet of Ukraine in relations with officials, state bodies and associations of citizens in Ukraine and abroad;

3) presents the Supreme Soviet of Ukraine with candidates for election to the position of deputy chairmen of the Supreme Soviet of Ukraine and editor-in-chief of the newspaper of the Supreme Soviet of Ukraine. Submits candidates for designation by the Supreme Soviet of Ukraine as Chairman of the Constitutional Court of Ukraine in conjunction with the President of Ukraine. Submits proposed candidates for designation as half of the judges on the Constitutional Court of Ukraine;

4) conducts sessions of the Supreme Soviet of Ukraine and the Presidium of the Supreme Soviet of Ukraine, and signs acts of the Supreme Soviet of Ukraine and its Presidium, and issues directives;

5) exercises overall supervision of the apparatus of the Supreme Soviet of Ukraine.

The deputy chairmen of the Supreme Soviet of Ukraine perform certain functions as commissioned by the Chairman. One of them occupies the post of Chairman in the event of his absence or his inability to fulfill his obligations.

Article 13.

The people's deputies of Ukraine work in the Supreme Soviet of Ukraine on a permanent basis. They may not combine their activity as a deputy with other work except for instructional, scientific and other creative work.

Article 14.

A people's deputy of Ukraine may not be subjected to criminal liability, arrested or subjected to administrative sanctions that are imposed judicially without the consent of the Supreme Soviet of Ukraine.

Article 15.

The right of legislative initiative in the Supreme Soviet of Ukraine belongs to the people's deputies of Ukraine, the standing commissions of the Supreme Soviet of Ukraine, the President of Ukraine, the Cabinet of Ministers of Ukraine, the Supreme Court of Ukraine and the High Arbitration Court of Ukraine.

The President of Ukraine, proceeding from the urgency of the legislative regulation of a particular sphere of social relations, may raise the question of the extraordinary consideration of draft legislation submitted by him. Such draft legislation is included on the agenda of sessions of the Supreme Soviet of Ukraine immediately after its submission, and is considered in accordance with the Procedures of the Supreme Soviet of Ukraine.

Article 16.

The Supreme Soviet of Ukraine considers and resolves issues of state and social life that require regulation by the laws of Ukraine, as well as performing the constituent and monitoring functions stipulated by the Constitution of Ukraine and this law.

The Supreme Soviet of Ukraine, aside from the laws of Ukraine, adopts decrees, statements, declarations, and appeals within the limits of its authority.

Article 17.

The Supreme Soviet of Ukraine:

1) adopts the Constitution of Ukraine, laws of Ukraine, codes and other codified acts, makes changes and amendments to them, and provides official interpretations of them;

2) monitors the fulfillment of the Constitution of Ukraine, the laws of Ukraine and the decrees of the Supreme Soviet of Ukraine;

3) monitors the sphere of the protection of human rights;

4) reviews and adopts resolutions regarding the Program of Activity of a newly formed Government of Ukraine;

5) reviews, makes changes in and approves the State Budget of Ukraine as submitted by the President of Ukraine, and monitors its fulfillment;

6) approves nationwide programs of economic, social and national-cultural development, as well as those pertaining to the protection of the natural environment;

7) sets the elections for the President of Ukraine, promulgates an act regarding his election, and accepts the resignation of the President of Ukraine;

8) reviews the annual and extraordinary reports of the President of Ukraine regarding the domestic and foreign policy of Ukraine;

9) ratifies or renounces the international treaties of Ukraine, or votes to ratify them or for Ukraine to accede to them;

10) makes the decision to disband itself and, simultaneously, to call for early elections of people's deputies of Ukraine;

11) sets elections to the local soviets;

12) approves the overall structure and size of the Armed Forces of Ukraine, the Border Troops of Ukraine, the

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National Guard of Ukraine, the Security Service of Ukraine, and other military forces created in accordance with the legislation of Ukraine;

13) approves the edicts of the President of Ukraine declaring a state of war, the institution of martial law across the territory of Ukraine or in particular localities of it in the event of military attack on Ukraine, a decision to suspend or curtail them, to conclude a peace and a general or partial mobilization on the territory of Ukraine in the event a state of war is declared;

14) approves edicts of the President of Ukraine to institute a state of emergency across the entire territory of Ukraine or in particular localities of it;

15) creates a Defense Council of Ukraine and designates the list of officials that are to make it up;

16) approves the composition, at the recommendation of the President of Ukraine, of the Central Election Commission for the elections of people's deputies of Ukraine and the President of Ukraine;

17) designates the Chairman of the Constitutional Court of Ukraine at the joint recommendation of the Chairman of the Supreme Soviet of Ukraine and the President of Ukraine. Designates half of the judges on the Constitutional Court of Ukraine. Administers the oath of judges of the Constitutional Court of Ukraine;

18) designates, at the recommendation of the President of Ukraine, the Chairman of the Supreme Court of Ukraine, the Chairman of the High Court of Arbitration, the Chairman of the Board of the National Bank of Ukraine, and removes them;

19) designates and removes the General Procurator of Ukraine at the recommendation of the President of Ukraine;

20) designates, at the recommendation of the President of Ukraine, the judges of the Supreme Court of Ukraine and the High Court of Arbitration of Ukraine, and removes them under the procedure established by law;

21) reconsiders a law that the President of Ukraine has vetoed;

22) makes decisions on questions of the administrative-territorial structure of Ukraine, and names or renames populated areas of Ukraine;

23) may call for a vote of no confidence in the entire composition of the Government of Ukraine or certain members of it, which entails their removal;

24) adopts, at its own initiative or at the initiative of not less than three million voters, a resolution to hold all-Ukraine referendums, and announces the results of all-Ukraine referendums;

25) monitors the granting by Ukraine of loans and economic and other assistance to foreign nations, as well as the reaching of agreements for state loans and credits and the utilization of loans and credits obtained by Ukraine from foreign nations;

26) annuls legal acts of the Supreme Soviet of the Autonomous Republic of Crimea in the event they do not conform to the Constitution and laws of Ukraine;

27) exercises a veto on the edicts of the President of Ukraine in the event they do not conform to the Constitution and laws of Ukraine, with a simultaneous appeal to the Constitutional Court of Ukraine.

The Supreme Soviet of Ukraine transmits laws it has passed for the signature of the President of Ukraine for subsequent promulgation.

The Supreme Soviet of Ukraine considers and resolves issues that are not under the jurisdiction of bodies of state executive or judicial authority, representative bodies or the bodies of local self-government, as well as those that are not resolved exclusively by all-Ukraine referendums, in accordance with the prevailing norms of the Constitution of Ukraine.

The Supreme Soviet of Ukraine may not delegate its authority to other bodies, except in the cases stipulated by the Constitution of Ukraine and this Law.

Article 18.

Designated exclusively by laws are:

1) the regulation of issues of the rights and freedoms of the person and the citizen, citizenship, the status of individuals without citizenship, refugees and foreigners; the principles of domestic and foreign policy, defense and state security; the foundations of social protections and the protection of the health of citizens, protection of the natural environment, education, culture, science, protection of intellectual property rights, marriage and family; the rights of national minorities; questions of demography and migration; the status of languages; the activity of associations of citizens, and the mass media;

2) nationwide taxes, types of duties and fees, financial, price and credit regulation, customs matters; the legal regime of ownership and property relations; the principles of the legal regulation of the economic and social development of the state; entrepreneurship, labor, nature and land use, questions of the forms, types, value and engraving of money; approval of the State Budget of Ukraine, as well as changes and reports on its fulfillment; state credit, the status of special (unrestricted) economic zones; the issue of state securities; currency and standards;

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3) the organization and activity of the Supreme Soviet of Ukraine, the status of people's deputies of Ukraine, bodies of state executive authority and bodies of local self-government, the fundamental principles of state service, the structure of the courts, court proceedings, the bar, the notaries, the procuracy and the bodies for the performance of punishments; acts that are crimes, administrative or disciplinary offenses, and liability for them;

4) the procedure for the utilization of natural resources, power systems, all types of transport and communications; the conquest of space;

5) the establishment of units, weights, measures, time, standards and principles of state statistics and information sciences;

6) the organization of procedures for the conduct of elections and referendums;

7) the status of the capital and cities of nationwide significance;

8) the rules for the conduct of diplomatic and consular relations, and the conclusion, renunciation and accession of international treaties;

9) the legal regimen for the state border;

10) the status of foreign troops on the territory of Ukraine; the procedure for the utilization of the Armed Forces of Ukraine abroad;

11) the legal terms of martial law and states of emergency;

12) the establishment of state symbols and their use; the establishment of state awards and military, honorary and other special titles.

Such other issues as are defined by the Constitution of Ukraine may also be relegated to legislative regulation.

Section III

THE PRESIDENT OF UKRAINE

Article 19.

The President of Ukraine is the head of state and the head of state executive authority in Ukraine.

The President of Ukraine, as the head of state, represents Ukraine in both domestic state and foreign relations.

The President of Ukraine, as the head of state executive authority, exercises that authority through the Government he heads—the Cabinet of Ministers of Ukraine—and the system of central and local bodies of state executive power.

Article 20.

A citizen of Ukraine who is from 35 to 65 years of age, who has lived in Ukraine for not less than the last ten years before the election and has command of the state language, may be elected President of Ukraine.

Article 21.

The President of Ukraine is elected by the citizens of Ukraine for a term of five years on the basis of universal, equal and direct voting rights by secret ballot.

The procedure for the conduct of the elections for President of Ukraine is defined by the Law of Ukraine "The Election of the President of Ukraine."

The regular elections of the President of Ukraine are conducted in the first week of November after the end of the five-year term since the day of his election.

The President of Ukraine takes office not later than fifteen days from the announcement of the results of the election. The President of Ukraine takes the oath at a plenary session of the Supreme Soviet of Ukraine, the text and procedure for the announcement of which are defined by law, upon taking office.

One and the same individual may not be President of Ukraine for more than two consecutive terms.

Article 22.

The President of Ukraine, within a month of taking office or as of the day of dismissal of the prior composition of the Government, designates a Prime Minister of Ukraine and formulates a new composition of the Government of Ukraine—the Cabinet of Ministers of Ukraine.

The Cabinet of Ministers of Ukraine, within two months from the day of its formation, submits a Program of its activity for the review of the Supreme Soviet of Ukraine. The Supreme Soviet, in the event of disagreement with the program submitted, may express no confidence in the Cabinet of Ministers of Ukraine.

The Supreme Soviet of Ukraine, after approval of a Program of Activity of the Government of Ukraine by the Supreme Soviet of Ukraine, may express no confidence in the Government of Ukraine not sooner than after one year of its work.

Article 23.

The President of Ukraine promulgates the laws of Ukraine that have been passed by the Supreme Soviet of Ukraine with his signature.

The promulgation of the law must be accomplished within two weeks from the time that the text of the laws came from the Supreme Soviet of Ukraine to the President of Ukraine.

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The President of Ukraine, in the event of disagreement with the substance of a law passed by the Supreme Soviet of Ukraine, may within that time employ his legal right of veto and return it with his remarks for reconsideration by the Supreme Soviet of Ukraine.

If during the reconsideration by the Supreme Soviet of Ukraine a 2/3 majority of votes of its actual membership approves that law, the President of Ukraine must sign and promulgate it within ten days.

Article 24.

The President of Ukraine:

1) acts as the guarantor of state sovereignty, independence, the inviolability of borders, the national security and territorial integrity of Ukraine, the upholding of the Constitution and the laws of Ukraine, and the rights and freedoms of the person and citizen;

2) provides reports to the people of Ukraine;

3) submits annual and extraordinary reports to the Supreme Soviet of Ukraine on the domestic and foreign policy of Ukraine;

4) heads the system of bodies of state executive authority of Ukraine;

5) creates, reorganizes and dissolves ministries, agencies and other central and local bodies of state executive authority within the limits of the funds of the State Budget of Ukraine, and designates (approves) and dismisses from their positions the heads of those bodies;

6) annuls acts of central and local bodies of state executive authority of Ukraine, as well as acts of bodies of executive authority of the Autonomous Republic of Crimea, in the event that they do not conform to the Constitution and laws of Ukraine, or to edicts and directives of the President of Ukraine;

7) administers property that is under nationwide ownership within the limits stipulated by law;

8) is the Supreme Commander-in-Chief of the Armed Forces of Ukraine, designates and removes the high command of the Armed Forces of Ukraine, and takes steps to ensure the defensive capability of the state;

9) heads the National Security Council of Ukraine and approves its personnel composition;

10) submits for the consideration of the Supreme Soviet of Ukraine the draft State Budget of Ukraine and a report on its fulfillment;

11) submits, in conjunction with the Chairman of the Supreme Soviet of Ukraine, a candidate for Chairman of the Constitutional Court of Ukraine to the Supreme Soviet of Ukraine for designation; designates half of the judges on the Constitutional Court of Ukraine;

12) submits candidates for designation by the Supreme Soviet of Ukraine for the post of Chairman of the Supreme Court of Ukraine, Chairman of the High Court of Arbitration of Ukraine, the General Procurator of Ukraine, and the Chairman of the Board of the National Bank of Ukraine, as well as for the designation of judges of the Supreme Court of Ukraine and the High Court of Arbitration of Ukraine;

13) designates, at the recommendation of the Ministry of Justice of Ukraine and with the consent of the Supreme Court of Ukraine and High Court of Arbitration of Ukraine, judges for the general courts and courts of arbitration;

14) implements the foreign policy of Ukraine, conducts negotiations and signs international treaties of Ukraine; designates and removes the diplomatic representatives of Ukraine to foreign nations and at international organizations; accepts and refuses the credentials of diplomatic representatives of foreign nations in Ukraine accredited to it;

15) submits for the consideration of the Supreme Soviet of Ukraine proposals regarding the personnel composition of the Central Election Commission for the elections of people's deputies of Ukraine and the President of Ukraine;

16) makes the decision to recognize foreign nations;

17) awards state decorations of Ukraine, and confers honorary titles of Ukraine; establishes presidential decorations, and awards them;

18) awards high military ranks, diplomatic ranks, other special titles and class ranks, and military ranks to the judges of military courts;

19) resolves the issue of the acceptance for citizenship and relinquishing of citizenship of Ukraine, the granting of asylum to foreign citizens and individuals without citizenship; takes steps to protect the interests of citizens of Ukraine outside its borders;

20) pardons individuals convicted by the courts of Ukraine; issues amnesty edicts;

21) makes decisions regarding the declaration of a state of war or the imposition of martial law on the entire territory of Ukraine or certain localities of it in the event of a military attack or threat of military attack on Ukraine, the decision to suspend or curtail them, or to conclude a peace and to submit those issues immediately for the review of the Supreme Soviet of Ukraine, as well as declares a general or partial mobilization on the

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territory of Ukraine in the event of the declaration of a state of war;

22) declares where necessary that certain zones of Ukraine are ecological disaster areas;

23) declares a state of emergency on the territory of Ukraine or in certain localities of it in accordance with the Law of Ukraine "States of Emergency";

24) exercises other authority in accordance with the Constitution and laws of Ukraine.

The President of Ukraine may not transfer his powers to other individuals or bodies.

Article 25.

The President of Ukraine, within the limits of his authority, issues edicts and directives that are mandatory for fulfillment across the entire territory of Ukraine, and provides interpretations of them.

The President of Ukraine issues edicts on issues of economic reform that are not governed by the prevailing legislation of Ukraine, which remain in force until the adoption of the corresponding laws.

Article 26.

The President of Ukraine may call for an all-Ukraine referendum. The call for an all-Ukraine referendum by the President of Ukraine is accomplished on the terms and under the procedure stipulated by the Law of Ukraine "All-Ukraine and Local Referendums."

Article 27.

The President of Ukraine submits to the Supreme Soviet of Ukraine annual reports, and extraordinary reports by request of the Supreme Soviet of Ukraine, no less often than once every year on the domestic and foreign policy of Ukraine.

The President of Ukraine may address the people of Ukraine and the Supreme Soviet of Ukraine with reports on topical issues of social and state life.

Article 28.

The President of Ukraine enjoys the right of inviolability. The President of Ukraine performs his duties until the entry into office of a newly elected President of Ukraine.

Section IV

THE GOVERNMENT OF UKRAINE — THE CABINET OF MINISTERS OF UKRAINE

Article 29.

The government of Ukraine—the Cabinet of Ministers of Ukraine—is a central, collegial body of state executive power, subordinate to the President of Ukraine and accountable to him.

The government of Ukraine is guided in its activity by the Constitution and laws of Ukraine, the decrees of the Supreme Soviet of Ukraine, the edicts and directives of the President of Ukraine, and the Program of Activity of the Government as approved by the Supreme Soviet of Ukraine.

Article 30.

The Prime Minister of Ukraine organizes and coordinates the work of the Government—the Cabinet of Ministers of Ukraine—acting within the limits defined by the President of Ukraine.

Article 31.

The Cabinet of Ministers, within the limits of its authority:

1) provides for the implementation of domestic and foreign policy, the fulfillment of the Constitution and the laws of Ukraine, the decrees of the Supreme Soviet of Ukraine and the edicts and directives of the President of Ukraine;

2) takes steps to ensure state sovereignty, national security and the defensive capability of Ukraine, its territorial integrity and economic independence;

3) takes steps to support the rights and freedoms of citizens, legality and law and order, to fight against crime, and to protect property rights;

4) supports the pursuit of economic reforms, the emergence, development and stability of the market economy, its social orientation, and develops and executes nationwide programs for the socio-economic and cultural development of Ukraine;

5) administers property that is under nationwide ownership, and defines the forms of interaction with subjects of other forms of ownership;

6) supports the pursuit of state policy in the realm of finance, taxes, prices, wages, and customs matters;

7) creates nationwide and other development funds, and funds for the elimination of the consequences of natural and other disasters;

8) implements state policy in the realm of education, science, culture and health care;

9) is responsible for the composition of the draft State Budget of Ukraine and the fulfillment of the State Budget of Ukraine;

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10) is responsible for the pursuit of state policy of social protections for citizens;

11) is responsible for the state of the natural environment, ecological safety and the efficient utilization of natural resources, for the output and sale of ecologically clean and high-quality foodstuffs, high-quality consumer items and objective information for the population in this sphere;

12) assists and coordinates the work of ministries and other central and local bodies of state executive authority subordinate to it;

13) exercises other authority as stipulated by the laws of Ukraine.

Article 32.

The President of Ukraine submits, not later than September 1, a draft State Budget of Ukraine for the review of the Supreme Soviet of Ukraine together with the conceptual framework of the budget, indicators of the credit emissions of the National Bank of Ukraine, a forecast for the economic development of Ukraine for the coming year, and the values of the balance sheet of financial resources of Ukraine. The draft State Budget must be developed upholding the requirements of the budgetary resolution passed by the Supreme Soviet of Ukraine.

Article 33.

The Supreme Soviet of Ukraine, in the event of the late submission of the draft State Budget of Ukraine, may adopt a resolution for a vote of no confidence in either the Cabinet of Ministers of Ukraine entirely or certain of its members.

Article 34.

The Cabinet of Ministers of Ukraine coordinates its actions on issues connected with the pursuit of monetary credit policy with the National Bank of Ukraine, which is entrusted with the functions of defining and carrying out that policy.

Article 35.

The Cabinet of Ministers of Ukraine, based on the Constitution and the laws of Ukraine, the decrees of the Supreme Soviet of Ukraine, and the edicts and directives of the President of Ukraine, issues decrees and directives within the limits of its authority that are mandatory for fulfillment across the entire territory of Ukraine.

Ministers, the heads of other central bodies of state executive authority, the heads of bodies of state executive authority of the Autonomous Republic of Crimea, the oblasts and the cities of Kiev and Sevastopol, exercise supervision of the spheres entrusted to them and bear responsibility before the President of Ukraine for the state of affairs in those spheres. The official regulations of central ministries and agencies are subject to registration with the Ministry of Justice of Ukraine.

Section V

THE COURTS OF UKRAINE

Article 36.

The courts exercise exclusive judicial power in Ukraine.

The Constitutional Court of Ukraine, the general courts and the courts of arbitration constitute the judicial system of Ukraine.

Judicial rulings are enacted in the name of Ukraine.

Article 37.

The courts protect the rights and legal interests of citizens, legal persons and the state by means of the administration of justice.

The courts are independent. All state and other institutions and citizens are obligated to respect the independence of the courts.

The courts are subordinate in their activity only to the law.

The courts of Ukraine have independent budgetary financing.

Article 38.

The Constitutional Court of Ukraine is an independent body of judicial power that ensures the conformity of laws and other official acts of legislative and executive authority to the Constitution of Ukraine, and the protection of the rights and freedoms of the person and the citizen.

Article 39.

The administration of justice in Ukraine is accomplished in the form of court proceedings in civil, economic, administrative and criminal cases, as well as in the form of the adoption of rulings on questions of the conformity to prevailing legislation of legal acts of officials, local bodies of state executive authority and the bodies of local self-government.

Any interference with the administration of justice is prohibited. Legal rulings are not subject to review other than by a court and under the procedure stipulated by law. The creation of extraordinary or special courts is not permitted in peacetime. The creation and activity of such courts in wartime is regulated by law.

Article 40.

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Judges are inviolable, independent and subordinate only to the law. The status of judges and the procedure for designating them are defined by the Constitution of Ukraine and the laws of Ukraine.

Article 41.

The legal oversight of the legality of judicial rulings of the general courts and courts of arbitration is performed by the Supreme Court of Ukraine and the High Court of Arbitration of Ukraine respectively.

Article 42.

Judges of all courts, except the judges of the Supreme Court of Ukraine, the High Court of Arbitration of Ukraine and the Constitutional Court of Ukraine, are named by the President of Ukraine at the recommendation of the Ministry of Justice of Ukraine, with the concurrence of the Supreme Court of Ukraine and High Court of Arbitration of Ukraine respectively.

Section VI

THE PROCURACY OF UKRAINE

Article 43.

The Procuracy of Ukraine is the body of state prosecution, general oversight and oversight of the fulfillment of punishments at places of confinement.

The General Procurator of Ukraine and the procurators subordinate to him are entrusted with:

1) oversight of the upholding of the Constitution and laws of Ukraine by the bodies and officials of state executive authority, representative bodies and bodies of local self-government, enterprises, institutions and organizations of all forms of ownership, as well as citizens of Ukraine and persons without citizenship;

2) oversight of the upholding of legislation on questions of the rights and freedoms of citizens;

3) oversight of the upholding of laws by bodies that are performing operational and investigative activity, inquiries and preliminary investigations;

4) investigation of crimes in matters that fall under the jurisdiction of bodies of the procuracy;

5) support of state prosecution in court;

6) oversight of the upholding of laws at the places where criminal punishments are administered, as well as the use of other means of a compulsory nature;

7) the protection of the property and other interests of citizens, officials and the state.

Article 44.

The General Procurator of Ukraine is named to the position and removed from the position by the Supreme Soviet of Ukraine at the recommendation of the President of Ukraine.

Article 45.

The procurators are independent in the exercise of their authority, and are guided only by the Constitution and by the laws of Ukraine.

The organization, authority and procedure for the activity of the Procuracy of Ukraine are defined by the Law of Ukraine "The Procuracy."

Section VII

LOCAL BODIES OF STATE EXECUTIVE AUTHORITY AND LOCAL SELF-GOVERNMENT IN UKRAINE

Article 46.

The oblast, Kiev and Sevastopol city, rayon, and city rayon in the cities of Kiev and Sevastopol, state administrations as headed by the chairmen of those administrations are the bodies of state executive authority in the oblasts, cities of Kiev and Sevastopol (as cities of nationwide significance) and rayons (except for the rayons in cities, with the exception of the cities of Kiev and Sevastopol) respectively.

The President of Ukraine names individuals elected by the chairmen of the corresponding oblast, Kiev and Sevastopol city, and rayon soviets to be chairmen of the oblast, Kiev and Sevastopol city, and rayon state administrations.

The bodies of local state authority are subordinate in the exercise of their authority to the higher bodies of state executive authority.

The legal status and amount of authority of the oblast, Kiev and Sevastopol city, and rayon state administrations are defined by this Law and by a Statute approved by the President of Ukraine. The President of Ukraine may delegate authority to state administrations with regard to property under nationwide ownership located on the territory of the corresponding administrative-territorial entity.

The specific features of the organization and functioning of bodies of state executive authority and bodies of local self-government in the cities of Kiev and Sevastopol are defined by separate laws.

Article 47.

Local self-government in Ukraine is the right of territorial collectives of citizens and the bodies of local self-government elected by them, guaranteed by the state,

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to resolve independently all issues of local significance within the limits of the Constitution and the laws of Ukraine.

The town (rural soviet), village and city are the territorial foundation of local self-government. Rayons in cities with rayon divisions are a constituent element of the local self-government of cities. Questions of the organization of the administration of rayons in cities fall under the jurisdiction of the city soviets.

Territorial collectives of citizens that reside in the towns (rural soviets), villages and cities are the primary subjects of local self-government.

Territorial collectives of citizens exercise their authority directly and through bodies elected by them.

Communal ownership and the financial resources of the town (rural soviet), village and city, the sources of which are the income of the local budgets relegated by law to the jurisdiction of local self-government, are the financial and economic foundation for local self-government.

Article 48.

Referendums and other methods for the participation of citizens in the discussion and resolution of issues relegated by law to the jurisdiction of local self-government are the forms of the direct exercise of local self-government by territorial collectives of citizens.

Article 49.

The bodies of local self-government in the towns (rural soviets), villages and cities are the town, village and city soviets respectively, which are elected in accordance with the legislation of Ukraine by the citizens of Ukraine who reside on the territory of the corresponding administrative-territorial entity.

Falling under the jurisdiction of the bodies of local self-government are:

—the development, approval and fulfillment of the budgets of the corresponding administrative-territorial entities in accordance with prevailing legislation;

—the institution of local taxes and levies as stipulated by legislation;

—the management of communal property;

—the organization and holding of local referendums;

—assistance in the upholding of the Constitution and laws of Ukraine, the edicts and directives of the President of Ukraine, and the decrees and directives of the Government of Ukraine;

—the exercise of other authority as stipulated by prevailing legislation.

Bodies of local self-government may, taking local conditions and specific features into account, redistribute among themselves certain self-governing powers by mutual agreement on the basis of contracts.

The procedure for the formation, organization and amount of authority of bodies of local self-government are defined by separate law.

Article 50.

The executive committees are the executive bodies of the town, village and city soviets. The personnel composition of the executive committee of the corresponding soviet is formed individually by the chairman of the soviet.

The chairmen of the town, village and city soviets are elected by the citizens of Ukraine who reside on the territory of the town (rural soviet), village or city. The chairman of the soviet is the *ex officio* head of the executive committee of the corresponding town, village or city soviet.

The chairmen of the town, village or city soviet exercises the overall supervision of the work of the corresponding soviet as a self-governing body, and supervises the activity of the communal and other services of the corresponding executive bodies of local self-government.

Article 51.

The chairmen and the executive committees of the town, village and city soviets that they head, aside from the jurisdiction of the soviets themselves, also exercise such authority of state executive power as is delegated to them, the amount of which is is defined by the President of Ukraine.

The chairmen of the soviets and the executive committees they head are accountable and answerable to the corresponding soviets on questions of self-governing authority.

The chairmen of the soviets and the executive committees they head are subordinate to the President of Ukraine and the Cabinet of Ministers of Ukraine, as well as the chairmen of higher-level state administrations, on questions of the exercise of state executive authority delegated to them.

Article 52.

The decisions of soviets, their chairmen and executive committees on questions of local self-government, if they contravene the Constitution and laws of Ukraine,

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are suspended until they are resolved by a court in accordance with the prevailing legislation of Ukraine, by:

—a directive of the chairman of the corresponding rayon state administration, for town, village and city (cities of rayon significance) soviets;

—a directive of the chairman of the oblast state administration, for city (cities of oblast significance) soviets.

Article 53.

The oblast, Kiev and Sevastopol city, rayon, and city rayon in the cities of Kiev and Sevastopol, soviets are the representative bodies in the oblasts, cities of Kiev and Sevastopol, and rayons (except the rayons in cities, with the exception of the cities of Kiev and Sevastopol). Those soviets, within the limits of their authority:

—approve the budget and monitor its fulfillment;

—approve programs of socio-economic development for the corresponding administrative-territorial entities;

—receive yearly reports from the heads of local state administrations on questions of the fulfillment of programs of socio-economic development of the territories and the budget.

The other powers of oblast, Kiev and Sevastopol city, and rayon soviets as stipulated by prevailing legislation are transferred to the oblast, Kiev and Sevastopol city, and rayon state administrations.

The procedure for the formation, functioning and amount of authority of the oblast and rayon soviets are defined by separate law.

Article 54.

The decisions of oblast, Kiev and Sevastopol city, and rayon soviets on questions of their own authority, if they contravene the Constitution and laws of Ukraine, are suspended until they are resolved by a court in accordance with prevailing legislation by:

—a directive of the chairman of the corresponding oblast, Kiev and Sevastopol city state administration, for rayon soviets;

—a directive of the Cabinet of Ministers of Ukraine, for oblast, Kiev and Sevastopol city soviets.

Article 55.

The town, village, city, rayon and oblast soviets are composed of deputies, and the overall number of deputies, depending on the size of the population residing on the territory of the corresponding administrative-territorial entity, may not be less than seven or more than 75.

Article 56.

The decisions of the chairmen and the executive committees of the town, village, city rayon (where they are to be created) and city soviets that they head that are made on questions of the exercise of authority of state executive administration delegated to them, in the event of a violation by them of the Constitution and laws of Ukraine, the edicts and directives of the President of Ukraine, or the decrees and directives of the Government of Ukraine, may be revoked by the chairmen of the oblast state administrations.

Article 57.

The decisions of the chairmen of the local state administrations, in the event of a violation by them of the Constitution and laws of Ukraine, the edicts and directives of the President of Ukraine, or the decrees and directives of the Government of Ukraine, may be revoked by the chairmen of the oblast, Kiev and Sevastopol city state administrations respectively.

The decisions of the chairmen of oblast, Kiev and Sevastopol city state administrations, in the event of a violation by them of the Constitution and laws of Ukraine, the edicts and directives of the President of Ukraine, or the decrees and directives of the Government of Ukraine, may be revoked by the President of Ukraine.

Article 58.

In the event of a violation of the Constitution and laws of Ukraine, the edicts and directives of the President of Ukraine, or the decrees and directives of the Government of Ukraine, the chairmen of the oblast, Kiev and Sevastopol city, and rayon state administrations may be removed ahead of schedule by the President of Ukraine.

The removal of the chairmen of oblast, Kiev and Sevastopol city, and rayon state administrations entails the suspension of their authority as the chairmen of oblast, Kiev and Sevastopol city, and rayon soviets.

The authority of the chairmen of town, village and city soviets may be suspended ahead of schedule by the President of Ukraine, based on a court ruling, in the event of a violation by them of the Constitution and laws of Ukraine, the edicts and directives of the President of Ukraine, or the decrees and directives of the Government of Ukraine.

Article 59.

The Autonomous Republic of Crimea is an administrative-territorial autonomous region within the composition of Ukraine.

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The Autonomous Republic of Crimea independently resolves issues relegated to its jurisdiction by the Constitution of Ukraine and the laws of Ukraine.

Section VII:

CONCLUDING PROVISIONS

Article 60.

This Law takes effect from the day of its official publication, and remains in force until the adoption of a new Constitution of Ukraine.

Article 61.

That portion of the legislation of Ukraine that does not contravene the norms of this Law remains in force.

II

Only that portion of the provisions of the prevailing Constitution of Ukraine that are in conformity with this Constitutional Agreement remain in force until the adoption of a new Constitution of Ukraine.

III

The creation of suitable conditions for the acceleration and successful completion of the constitutional process in Ukraine is deemed essential in order that a new Constitution of Ukraine be adopted not later than one year from the day of signing of this Constitutional Agreement.

IV

The provisions of the Constitutional Agreement shall be strictly upheld, and all actions shall be in accordance with it until the adoption of a new Constitution of Ukraine.

Issues other than the adoption of a new Constitution of Ukraine, the text of which shall be coordinated by the Parties, shall be submitted to an all-Ukraine referendum, a consultative referendum or a public-opinion poll until the adoption of a new Constitution of Ukraine.

* * *

The Parties acknowledge that a failure to fulfill the provisions of this Constitutional Agreement will lead to chaos in social life, the collapse of the economy, and the appearance of a threat of civil conflict, and will call into question the very existence of a sovereign and democratic Ukraine.

* * *

This Constitutional Agreement takes effect as of the moment of its signing by the President of Ukraine and the Chairman of the Supreme Soviet of Ukraine, and is open for signing by the people's deputies of Ukraine.

The Constitutional Agreement has been concluded on 8 June 1995 in the city of Kiev in two copies, the text of each of which is of equal authenticity.

Chairman of the Supreme Soviet of Ukraine Oleksandr MOROZ

President of Ukraine Leonid KUCHMA

Economic Issues

*Commercial Bank Policy Evaluated

954F2527B Kiev KIYEVSKIYE VEDOMOSTI in Russian 9 Jun 95 p 3

[Article by KIYEVSKIYE VEDOMOSTI Correspondents Anatoliy Skichko, Irina Titova, and Aleksandr Shtolko: "We are Moving Toward the Monopolization of the Banking System"]

[FBIS Translated Text] **On 16 May the National Bank adopted a decree on changing the procedure for licensing banks and re-registering the licenses of authorized banks. The decision was brought to public notice only the day before yesterday. To all appearances it required certain agreements and "spillages," since it can fundamentally change the situation on the financial market of the Ukraine. Banks which want to operate with freely convertible currency any longer must bring their authorized capital up to 200,000 ECU prior to 1 September. In this instance operations with non-cash currency (beznalichnaya valyuta) are to be performed through the Inter-State Settlements Center of the National Bank of Ukraine. Those who aspire to greater independence and intend to open correspondent accounts in freely convertible currency directly will be required to bring their authorized capital up to ECU500,000.**

The National Bank of Ukraine's decision has been interpreted ambiguously in financial circles. The chairman of the Exchange Committee of the Ukrainian Inter-Bank Currency Exchange (UMVB), Vadim Getman, has told KIYEVSKIYE VEDOMOSTI: "Essentially, the Central Bank has set for the commercial banks a line beyond which they no longer can be called banks. The mechanism laid down in the decree will result in the closing of hundreds of correspondent accounts. Our internal fuss is completely incomprehensible to world public opinion, which treats Ukraine as a country which wants to enter the European Community more rapidly. Deutsche-Bank already wonders, why of their 200 accounts have

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17 been left? Because we have changed everything here and we are forfeiting trade and economic ties. You see, to then open a new correspondent account in a first-class bank is highly problematical. According to our predictions, the number of authorized banks will shrink to 17 (there are no more than 100 of them now).

"The National Bank of Ukraine's intention to concentrate operations with freely convertible currency in the Inter-state Settlements Center is contrary to the present charter of the National Bank of Ukraine and the draft legislation on the National Bank which prohibits the National Bank of Ukraine from engaging in commercial operations. Such a step can be considered only thusly: The National Bank of Ukraine by hook or by crook wants to support its dying settlement center which today is experiencing shortages both of personnel and of equipment. The decree of the National Bank of Ukraine will result in a constriction of the market and a lowering of its competitiveness and, consequently, of the quality of services. A 'great movement of peoples' between the major banks will begin. Essentially the banking system will be monopolized. The Exchange Committee (which takes in, by the way, the major banks and they, it would seem, have a vested interest primarily in this decree) consider the appearance of such a National Bank of Ukraine decision abnormal."

Petr Miroshnikov, chairman of the board of the INKO bank, has commented thusly on the situation: "The measure adopted by the National Bank of Ukraine is ambiguous. I don't think that the question of the size of the authorized capital is fundamental from the viewpoint of the possibility of a bank engaging in currency operations. It can be that the National Bank of Ukraine has decided to stimulate the banks to build up capital in this way. It can be that it has information on the inexpert operation of small banks on the foreign market. How will the National Bank of Ukraine's decision be reflected on the international level? If the opportunity to obtain internal licenses will be granted, when small banks open correspondent positions in major Ukranian banks, and those already operate on the international market, nothing terrible will occur. For me the problem is related to another—to the diversification of risks. The more types of activity a bank carries on, the less is the probability of bankruptcy. Risks increase if we push banks into narrow limits of activity. And since it is far more difficult to operate with the karbovanets today, the risk of small banks finding themselves amongst the bankrupt grows."

***Government Faulted on Budget Fulfillment**

954F2527A Kiev KIYEVSKIYE VEDOMOSTI in Russian 2 Jun 95 p 3

[Article by KIYEVSKIYE VEDOMOSTI Correspondent Sergey Sokolovskiy: "The Retired Government Has Received a Two. For Fulfillment of the Budget"]

[FBIS Translated Text] **The Americans consider the law on the state budget the chief law of the country after the Constitution. We, for a number of reasons and poor heredity, are far from being so law-abiding: in adopting the budget for 1995 the people's deputies right away agreed on "the need for revising and adjusting" this budget. The fulfillment has also proven to be well matched: the commission on budget problems of the Supreme Soviet has deemed the work of the retired government unsatisfactory.**

The Gross Domestic Product Falls and... Increases

It's hard to surprise us by paradoxes, but nevertheless... In the space of four months the gross domestic product in Ukraine has declined by 10.3 percent; however, in adjusted form it has seemingly increased to 5124 trillion karbovanets (krb). The basic reason for such a growth has been... the increase in the wage fund. At the same time the income tax from persons will increase and the structure of the tax on enterprise profit will change. Moreover additional revenue sources are being actively sought: it is planned to earn Krb7 trillion from the sale of military equipment alone. The total amount of additional revenue should come to Krb40 trillion while retaining a maximum deficit of Krb331 trillion (7.3 percent of the gross domestic product).

Simultaneously with this many revenue items are causing great and well-founded doubts among the parliamentarians. Thus, receipts of the rent payment for domestic oil and gas, given a plan of Krb197 trillion for the year, have not exceeded 3-5 percent and revenues from privatization—0.8 percent. Such are the results of the first third of the year. The picture with expenditures is similar. Some items have already been used up 100 percent, a portion by 2-5 percent. Unaccounted-for expenditures not provided for by the budget but slipped in by the executive authority have reached Krb470 trillion. "Only the fact that many laws, edicts, and decrees are simply not being carried out saves the budget from being completely out of control," says Nikolay Azarov, chairman of the parliamentary commision on budget problems. "An example can be the Law of Ukraine "On the Mountainous Oblasts," which has not been provided for by the present budget. And precisely on the basis of this the Transcarpathian Oblast alone ought to have received Krb30 trillion from Kiev."

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How They Shake Up the Budget

The revisions prepared by the commision are expected to be significant. The pension fund will be replenished since an increase in pensions taking account of the real index of inflation is being planned. Expenditures for the Chernobyl program will increase. The state has suddenly remembered also about the question of captial investments. This item, planned at first in the amount of Krb95 trillion (80 trillion of centralized and 15 trillion of budget loans) has not found room in the budget. And the capital-intensive sectors (the power engineering, coal mining and chemical industries) have been placed on the brink of survival. The coal industry has especially suffered: in the space of 10 years (since 1985) capital investments have fallen by 15 times (and by nine times over the last five years). The government has purchased 21 million tonnes of coal abroad. Naturally, while it is cheaper than domestic. While. Already covered ground is being repeated: already in the Union a decision was adopted concerning the unpromising nature of oil and gas production in Ukraine. The result is well known: importer monopolists dictate prices that exceed world prices. The same can happen with the only energy-bearing resource—coal—which Ukraine is fully capable of providing itself.

They Await an Answer from the Government and the National Bank of Ukraine

Among the paradoxes is the following: having sent the Cabinet of Ministers into retirement, the parliament two months later has wanted to obtain answers to specific questions from it: where and how was the reserve fund of the Cabinet of Ministers used; to whom and for what did the Cabinet of Minsters give budget loans and government guarantees and what has happened with the state's (foreign) currency reserves. The indebtedness of the Respublika concern to the state budget in the amount of Krb10.3 trillion, the date for the repayment of which no one knows for the present, has been noted down in a special section.

The National Bank has also caught it. The estimate of the expenditures and revenues of the National Bank of Ukraine has been returned for modification. The deputies have not liked the scope. It has dared to ask the government for Krb90 trillion—of interest for credits, i.e., as much as has been assigned to circulation. It was easier last year: the National Bank of Ukraine didn't receive money from the government for credits granted. And it has survived. The deputies have concluded: well then it also won't perish now.

There is a special question with issue (emissiya). It has been set at Krb182 trillion for the entire year. Having approved a start in January of 25 trillion, the Supreme Soviet for the future has left the prerogative to the National Bank of Ukraine, naturally, with the right of monitoring. For now everything is within the limits of the schedule: on 19 May the total amount of the issue equalled 79.5 trillion (first quarter—48 trillion, April—22 trillion, May—9.5 trillion). In other words practically the entire deficit has been covered through the credits of the chief bank. The official opinion is that the National Bank of Ukraine will keep within the limits of what has been authorized. However most economists doubt this very much: the flywheel of inflation was kept in check too long by the monetarist method. If the issue reaches the predicted amount of Krb100 trillion—one will be able to give up the reforms for lost. If not—then industry.

Incidentally

At Wednesday's session the Supreme Soviet emended the Law "On the Budget System" in the direction of toughening liability for violation of the time periods for presenting a draft budget for parliament's consideration. A date has been set—prior to 15 September of each year. Otherwise the Supreme Soviet considers the question "of the causes and responsibility of officals." They can incur disciplinary, administrative and even criminal liability.

***Private Banks Seen as Key Reform Supporters**

954K0618A Kiev URYADOVYY KURYER in Ukrainian 6 Jun 95 p 9

[Article by Oleksandr Suhonyako, president of the Association of Ukrainian Banks: "The Economy and the Banks"]

[FBIS Translated Text] The Fourth Congress of the Association of Ukrainian Banks will be held on 8 June 1995. Out of 219 Ukrainian banks, 129 belong to the association. The bankers intend to discuss not only their own problems but also the situation in the economy as a whole; after all, the financial well-being of banks depends on the status of their clients. The bankers do not intend to just talk. The banks come out in favor of speeding up the capitalization of society and reforms because they see this as the only opportunity for overcoming a permanent economic crisis.

* * *

Under the conditions of independence, Ukraine has faced the necessity of discarding the inefficient structure of the national economic complex and eliminating its loss-generating features which, in and of itself, is an extremely complex task in view of the unavailability

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of funding and socio-political and personnel problems. Unfortunately, the public has not yet fully grasped the complexity and urgency of this necessary task. The leadership of the country "drowned" the payment crisis in inflation like an unfortunate man would drown his troubles in vodka. However, following the hangover the troubles loomed larger yet.

It is becoming obvious that overcoming the loss-generating nature of the economy and the payment crisis is the key task of not only the economic policy of the state but of the entire society, the entire nation. The very existence of Ukraine as a sovereign state depends on accomplishing this task.

* * *

A failure to pay back loans and to meet one's debt obligations has become a common phenomenon because at state enterprises the finance manager is not financially responsible for the losses of the enterprise which are automatically shifted to the state. The status of financial discipline in the private sector is no better. Irresponsibility, financial chaos, and lack of discipline at a time when regulatory and legal support for economic, credit, and financial operations is underdeveloped spawn corruption and criminalization of our country's economy.

The policy of the executive authorities also favors this. Old state acts which are aimed at providing financial support to state enterprises while the budget lacks the necessary financial resources are still in effect, and new ones are being adopted. Meanwhile, there is no proper economic justification for providing such support.

The loss-generating nature of the economy and the payment crisis may only be overcome by asserting financial discipline. **This is precisely why the Association of Ukrainian Banks believes that the supreme officials of the state must pay attention to remedying the lack of financial discipline.**

* * *

The policy of artificially preventing the bankruptcy of state enterprises is an obstacle in the path of asserting financial discipline.

The Law of Ukraine on Bankruptcy is not working because cases involving the bankruptcy of state enterprises are closed due to the pressure brought to bear on judges by sectoral ministries. There is no dearth of examples. The government must set forth a list of enterprises which it will retain as state property and ensure their rehabilitation with budgetary funds. The rest of the state enterprises which the government does not have the funds to support and rehabilitate should solve their financial problems themselves. Privatization and rehabilitation of such enterprises through bankruptcy in the event of insolvency amounts to a realistic path toward a healthy economy.

Under proper conditions, the courts should consider bankruptcy lawsuits brought by banks. If an enterprise is pronounced bankrupt it should be automatically withdrawn from the voucher privatization scheme and be subject to sale by the bank as the main creditor in accordance with legislation.

In addition to the policy of artificially preventing bankruptcy, there also is one more substantial problem in the implementation of the economic rehabilitation mechanism, the assertion of financial discipline, and the resolution of the payment crisis. At issue is the insufficiently elaborated bankruptcy procedure, its regulatory and legal basis, and the absence of a sufficient number of experienced arbitration officials. However, this problem will be solved considerably faster once the main barrier—lobbying by state enterprises—has been surmounted.

To my mind, the elimination of artificial barriers to the application of the Law of Ukraine on Bankruptcy and facilitation of the development of a clear-cut bankruptcy procedure is becoming a fundamental aspect of modern economic policy.

* * *

At one point, the president of Ukraine called the credit and finance system of Ukraine the "locomotive of reforms." The time has now come for the executive authorities to use the credit and finance system precisely as such a "locomotive."

The second tier of the banking system in Ukraine consists of almost 2,000 banking establishments which employ 137,000 people. The banks have the most highly skilled, "market-oriented" pool of personnel, as well as the necessary organizational, technical, and financial potential.

The banking system is capable of assuming the role of a leader and an instrument for asserting financial discipline in the national economy of Ukraine. Banks can also be used as a means to carry out the procedures of bankruptcy, rehabilitation, and privatization of state enterprises.

It has so happened that almost all banks in Ukraine have been privatized. This provides a favorable environment for using the banks as a catalyst in the process of privatization and reforms in Ukraine. After all, it is known that Central European countries cannot complete the process of planned privatization

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because, among other things, a considerable proportion of their banks have not been privatized.

The banks can facilitate the implementation of the Program of Structural Transformations announced by the president of Ukraine. Its implementation will require the generation and accumulation of investment potential in the economy of Ukraine. However, due to the current restrictions the banks have been actually removed from the investment process, and they are used for privatization solely as a technical instrument.

Restrictions on the sources of funds which participants in the stock market are allowed to use for securities purchasing is one of the substantial restrictions which artificially slow down the process of privatization and development of the stock market. In accordance with legislation in effect, only the equity capital of enterprises, establishments, and organizations, i.e. funds accumulated out of one's own profits, can be used for this purpose.

It is necessary to cancel the restrictions on funds which can be used to purchase securities with regard to all participants in the stock market.

In addition to these changes in legislation in effect, it is necessary to pass promptly a package of regulatory and legal acts which would provide a legal framework for using the credit and finance system most effectively, not only as a mechanism for institutional changes and overcoming a lack of financial discipline in the national economy, but also as a participant in the investment process.

The time has come to give a straight answer to the following question: "Where are we headed, and which model of social relations are we opting for?" It is obvious that private ownership of the means of production should be the economic foundation of such relations, and that the economic policy of the government should be aimed at capitalizing our society, naturally, with the accomplishments of humanity by the end of the 20th century being taken into account.

***Official Details Payment Arrears Measures**

954K0619A Kiev URYADOVYY KURYER in Ukrainian 1 Jun 95 p 5

[Article by Valeriy Lytvytskyy, aide to the president of Ukraine for economic issues: "Payment Arrears Are the Enemy of the Economy"]

[FBIS Translated Text] **Unfortunately, there has been no letup in the payment crisis. Measures to overcome it which were taken between October of last year and April of this year resulted in a certain improvement but turned out to be insufficient. A distorted economic structure and the potential inflation which it has consistently generated—the underlying causes which from time to time bring about the aggravation of the payments situation—have remained.**

We must conclude that no decisive institutional changes associated with the privatization and restructuring of state enterprises are taking place. Dissatisfaction with the current condition of payments which, following the well-known clearance of mutual indebtedness together with the associated half-issuance of bills of exchange, has deteriorated again is a cause of major concern for the executive authorities. The president and the government have recently taken resolute short-term actions, appreciating the fact that, at best, urgent measures to resolve the payment crisis will not eliminate its root causes but will only mitigate their unacceptable manifestations substantially. Valeriy Lytvytskyy, aide to the president of Ukraine for economic issues, discusses these actions exclusively for URYADOVYY KURYER.

A presidential directive provides for a number of measures to be taken:

—first, sustaining the payment potential of enterprises;

—second, substantially enhancing the payment discipline of enterprise transactors;

—third, providing a favorable environment for stepping up the participation of banks in the extension of credit to meet the current and investment needs of enterprises;

—fourth, reducing the arrears of the budget in payments to budget-financed organizations and establishments and those of budget-financed organizations in payments to economically accountable enterprises.

Among the approved measures, there are both new ones and those that have already been used during the past attempts to solve the payments crisis but whose positive potential has not been used for various reasons. As far as the latter are concerned, we should pay attention to offsetting mutual arrears with bills of exchange being issued for the amount of the debit balance in products which are delivered both against prepayment and without prepayment. Let us stress that at issue is a non-monetary offsetting which is supposed to be carried out in conjunction with the issuance of bills of exchange for the balance, based on the status of arrears as of 1 June 1995.

Some hopes are being attached to an opportunity to hand over the management of debt to commercial banks and other enterprise transactors and to offer credit support to enterprises through account No. 726; these opportunities

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were not taken advantage of at one point. It is planned to reduce reserve requirements for commercial banks with regard to attracted funds in order to give them an incentive to extend investment credit. Arrangements will be set forth for reducing the volume of payments for previously extended credit and adjusting the interest rates charged by banks in conjunction with changes in the discount rate of the NBU [National Bank of Ukraine]. The repayment of loans granted before 1 January 1995 to the Ministry of Industry, the Ministry of Machine Building, the Ministry of Power Generation, the State Committee for Nuclear Energy, and certain state enterprises and organizations will be extended to 1 October.

These measures include a gradual transfer of facilities in the socio-cultural sphere from the balance sheets of enterprises to local councils with relevant sources of financing being provided; the replacement of accounts payable with enterprise shares; the permission for individuals to open non-personal hard currency accounts; cancellation of the mandatory surrender of foreign exchange on the interbank currency market; greater frequency of currency auctions, with daily auctions being introduced effective 1 October of this year; introduction of farm equipment leasing.

I would also like to note measures associated with the reinforcement of control over the channels of distributing goods to consumers. This is about a problem to which no proper attention was paid before—that of organizing the market for domestic manufacturers. It is an essential factor in creating the payment crisis because we cannot overcome the actual monopoly of intermediaries in the area of merchandise flows from our enterprises without establishing distribution and supply associations of producers on the pattern of syndicates, and so on which involve domestic manufacturers taking control of the market and countering aggressive competition from imported goods.

Therefore, in accordance with a directive of the president of Ukraine, a draft Edict on Regulating the Trade Sector is to be submitted before 1 July 1995.

I cannot agree with the notion that the money supply is being excessively squeezed and that it is necessary to issue new resources of tender. We cannot do without emission only in the event that prices increase substantially. For now, we have funds. There are more than 270 trillion karbovantsy in deposit accounts at banks.

The president's edict should also resolve payment relations: Deadlines should be set for meeting obligations and for passing on arrears in the financial performance of the creditors and the debtors as profits of the former and losses of the latter. However, payment arrears represent hidden losses for the latter. It is envisioned to file lawsuits in order to pronounce bankrupt the enterprises whose payments to the budget and extrabudgetary funds are in arrears for more than 90 days, as well as those which have failed to pay back loans from the budget on time. Commercial banks will be given the right to reduce the interest accrued on bad debts out of the revenues of future periods.

Proposals to mothball or privatize individual production facilities will be developed on the basis of a selective analysis of financial and economic operations of state enterprises which will reveal the actual nature of indebtedness. If deviations from the deadlines and full volumes of leasing fee payments are discovered, the State Property Fund will bring lawsuits to cancel lease contracts. It is envisioned to take a number of resolute steps based on the results of audits in the Ukrgazprom and the Ukrgaz, a census of gas consumer withholding payments, and the results of accounting for gas and declaring it on the customs border of Ukraine. Without this we will not be able to restore discipline as far as payments for energy resources are concerned.

An edict of the president on measures to ensure the return of the import segment of barter contracts is to be prepared.

We cannot fail to mention such measures as the cancellation of the relief of the value-added tax, excise taxes, import customs duties which are paid in conjunction with the importation of goods, as well as the payment of the value-added tax at the sale of goods which are being sold for foreign exchange. Incidentally, this is also important in providing moderate protection for domestic manufacturers.

Finally, about the arrears of the state in payments to the production sector, especially to budget-financed organizations and establishments. Budgetary indebtedness is one of the main generators of the payment crisis and the possible escalation of social tensions in our society. Everything necessary should be done in order to eliminate the wage, leave pay, and pension arrears of the budget before the end of the first half of the year.

The issue of developing procedures for eliminating the arrears of budget-financed organizations in payments to economically accountable ones is more complex. We should do without credit expansion and subsequently the emission of currency which triggers a slide into the abyss of hyperinflation and which can disrupt the emerging financial stabilization. There is the resolute intent to switch in the second half of 1995 to the placement of state treasury obligations in cash form among enterprise transactors and the population by

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holding auctions of state treasury obligations at least once a month beginning in July.

We should grasp clearly that arrears remain one of the worst forms of product-oriented, moneyless relations. As a method of sorts for replenishing the working capital of enterprises which has been shrunk by inflation, the arrears have revealed what they were supposed to reveal: the inability of the Ukrainian economic structure to survive in the environment of high inflation and its even smaller ability to survive in the environment of a strict anti-inflationary policy.

Urgent measures taken to resolve the payment crisis will have only a partial mitigating effect on the situation, although a substantial one, in the absence of substantial changes in the structure of our national economy and a permanent suppression of inflation.

Therefore, for our payment mechanism to be radically rehabilitated we should speed up the accomplishment of strategic tasks of the economic reform, first of all institutional changes in the economy, its restructuring, and long-term financial stabilization.

***Industrialists Appeal on Economic Policy**

954F2526A Kiev GOLOS UKRAINY in Russian 9 Jun 95 p 3

[Unsigned article: "Appeal of the Directors of the Industrial Enterprises of Chernovitsy Oblast to Chairman of the Supreme Soviet of Ukraine A. A. Moroz, President of Ukraine L. D. Kuchma, and Prime Minister of Ukraine Ye. K. Marchuk"]

[FBIS Translated Text] Inconsistency on the part of governmental structures in administering the economy, errors in the legislation regarding its functioning, and the lack of a clear-cut foreign economic policy have resulted in the shutting-down of practically all of Bukovina's enterprises.

In our view, a number of edicts, directives and letter-directives have been adopted that are contrary to elementary logic. In particular, Edict No. 227/95 of 16 March 1995 concerning measures for normalizing payment discipline in Ukraine's national economy is clearly leading to an increase in the debts of all payers, the inability to pay wages to all production structures, and, finally, to the complete bankruptcy of enterprises. The President's edict of 9 March 1995 concerning the procedure for rendering state credit support to enterprises of all forms of ownership in 1995 and many other documents are not producing the desired effect.

The high interest rates to the banks for loans, all the withholdings, and exorbitant taxes are exacerbating the crisis. Wages haven't been paid for six months and industry's output has become noncompetitive on the basis of prices. Based on this, we resolutely insist on the adoption of such measures as:

in order to liquidate the payments crisis and to restore production, indexing the working capital of the enterprises at 1150-1200 times over the year 1991 or granting long-term interest-free loans for the replenishment of working capital so as to replace not less than 70 percent of production stocks by internal funds;

freezing the indebtedness of the enterprises to the banks for three to five years and writing off the interest for their use;

in order to increase the output of products, granting enterprises of all forms of ownership short-term loans of up to a year at rates of 40-50 percent annually and five-year long-term loans for the development of new types of output and technology at 5-10 percent annually;

rescinding the above-mentioned Edict No. 227/95 of 16 March 1995 for the purpose of the top-priority payment of wages and energy-bearing resource payments and introducing instead of it a mechanism for reserving funds for the payment of wages, having in mind that the real movement of goods starts with the purchasing power of the population;

simplifying the tax system, having reduced the number of taxes and their rates, and differentiating taxation by priority directions in the economy. The tax system should stimulate an increase in production and contribute to lowering its cost, increasing revenues and forming a consumer market;

rescinding the penalty charged payers for not paying taxes on time (in accordance with letter-directive No. 10-114 (11-911) of 3 March 1995);

stabilizing the payment for energy-bearing resources and solving the question of preferential credits for industrial enterprises of all forms of ownership (except for commercial structures) on settlements for energy-bearing resources and through deliveries of commercial output being produced by the oblast's national economy;

establishing restrictions or regulating by tax the importation of import goods produced by Ukrainian enterprises, developing a firm policy for protecting sales markets, and banning the exportation of raw material of which there is not enough for the production of one's own goods. We protest against a policy which expands the sales markets for the countries of the far abroad and creates additional jobs for them at the expense of the mass curtailment of production in Ukraine, turning

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it into a colony with cheap labor and raw materials. One needs to develop and adopt laws which in deed and not in words would promote the development of the economic integration of Ukraine with the states of the CIS and the far abroad. Removing customs barriers for the free movement of the export goods of industrial enterprises, apart from strategic and raw material resources;

We support the President's edict concerning the creation of financial-industrial groups and the inter-state mechanisms for their functioning.

We consider urgent the development of a state price policy which would protect our citizens and not foreigners, the regulation of prices not with the help of a mechanism for liberalizing or stabilizing their levels but with the help of tax mechanisms, and the restoration of the basic principles of labor payment which would stimulate the production and not the reselling of goods very often obtained by felonious means.

The appeal was adopted at a meeting of the directors of the industrial enterprises of Chernovitsy Oblast.

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Armenia

Scientist Condemns Planned AES Restart

95WN0191A Yerevan GOLOS ARMENII in Russian 10 Jun 95 p 1

[Article by A. Abramyan, doctor of technical sciences, professor, holder of state prize: "Armenian Atomic Electric Power Plant Is an Unjustified Risk"]

[FBIS Translated Text] The restart of Armenian AES [atomic electric power plant] is insane, the price of which will be the destruction of Armenia, its people, and people in the neighboring states. It is necessary not to permit the restarting of the AAES [Armenian atomic electric power plant] by 5 July in the name of the understandable aspiration of the authorities to win back the masses. The current leadership came to power with the slogan about shutting down the AAES. Now they are striving to retain that authority by starting the AAES?

Despite protests by scientists of Armenia and Georgia, warning articles in the press, and speeches at meetings, start-up work continues. A few days ago the Americans as well warned us through THE WASHINGTON POST about the great danger of starting and operating the AES at Metsamor.

What is the danger? Even though our atomic station differs from the Chernobyl AES, it also does not have a protective dome and therefore the tragedy of Chernobyl may be repeated at any moment.

It is also known that the Armenian AES is located in a seismically active zone, it is not protected against sabotage, and, what is most important, it is located right next to the densely populated city of Yerevan with nowhere for its residents to be evacuated. Under such conditions the MAGATE [International Atomic Energy Agency (IAEA)] and the leadership of the republic are attempting to convince the public of total safety which is not and cannot be the case.

At the same time instead of spending hundreds of billions of drams on restoration of the AAES and tens of million on the purchase of nuclear fuel, it would be possible to fully satisfy the needs of the republic for electric power without restarting the AES and with minimal importation of fuel from Russia and Turkmenistan.

For example, the article "We Will Get By Without the AES" (GOLOS ARMENII, 8 August 1991) offered a number of alternate methods of acquiring energy with the use of water, solar energy, wind, biomass, and a decrease in losses in the consumption of electrical energy. Using these methods, it would be possible to satisfy the needs of the republic for the next 100 years. Plans utilizing the indicated sources of energy were submitted to the NAN [National Academy of Sciences], the Supreme Council of the Republic of Armenia, and the Armenian Government and were publicized at international congresses and conferences in Yerevan, but pressure from above prevented their practical implementation.

In 1992 I completed plans for a combined solar heat fueled electric power station with a capacity of 1,200 megawatts in the vicinity of Lake Sevan, which exceeds the power of the AES block by a factor of one-and-a-half while its cost would be below that for construction of a TES [thermal electric power station] by a factor of 10. Expenses per kilowatt-hour of electric power are also much lower.

Annual economy of funds for operating a TES comes to 26 billion drams, while the fuel cost is 868,000 drams. With such economic indexes, the TES generates 7.2 million kilowatt-hours which exceeds the output of the AES by a factor of 1.6.

In 1993 these plans were submitted to the Ministry of Energy, the government, and the NAN of the republic but was not deemed worthy of attention.

Beside the real danger of an explosion at the AES, there is also another danger. As indicated by practice, buried nuclear waste explodes in 2-3 years, creating the effect of an earthquake, which is particularly dangerous for Armenia.

According to the press, such incidents occurred in the United States, Japan, Kyrgyzstan, and Russia.

Operation of an AES satisfies the need for electric energy by only 12-14 percent, whereas the existence of even the slightest risk should prompt any authorities to reject the idea of operating an AES. A catastrophe augurs losses which can never be justified under any circumstances.

Stop this insanity about restarting the AES! Prohibit the use of nuclear energy in Armenia! Our people did not survive thousands of years of history in order to fall prey to a man-made catastrophe on the eve of the 21st century!

Editor: We are not publishing this letter from the scientist which is so full of despair to fan passions around the AAES issue. At the same time we consider it to be our moral duty to carry to the public the voice of those who are against utilization of nuclear energy in Armenia. Yes, such energy promises benefits for the republic, which is blockaded and languishes in the energy crisis. No one, however, has "negated" the risk of a catastrophe which can destroy the nation, so the

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arguments of those supporting the restarting of the AES are just as convincing as arguments of those opposed to that idea.

At any rate, during all the years when the AES was not operating, GOLOS ARMENII tirelessly called on the authorities to take a step forward, using the circumstances, and change the stereotypical approach to power engineering creating ecologically pure and operationally safe as well as low-cost energy systems in Armenia. Alas, the bureaucratic machines at the agencies and above them, still working since the Soviet Union days, operating with a restricted rhythm, running in place, hooked on routine agency interests, never rose above its hierarchical canons, leaving society no alternative other than starting the atomic station. The people, of course, being very tired of cold winters and cheerless gloom, it appears, are ready to agree without complaint to anything in the name of light, even their own immolation.

The authorities have no right to adhere to a certain date for starting the AES because of some reasons that are highly justified for them!

Arguments substantiating the total safety of the AAES must be heard by the people. The people must know what luminaries of science, government officials, and international organizations they come from. Therefore the debate about the atomic station is far from over.

Azerbaijan

Journalists' Extortion Scheme Uncovered

954F2608A Moscow LITERATURNAYA GAZETA in Russian 15 Jun 95 No 24, p 2

[Article by Elmira Akhundova, LITERATURNAYA GAZETA correspondent in Baku: "The 'Bee' Is Flying Toward Hard Currency; How One Manager Taught Two Journalists a Lesson"]

[FBIS Translated Text] **Perhaps, the republic's rayon leaders are most afraid of journalists from the two central newspapers—ARY and MOZALAN.**

These are satirical publications which are called upon to castigate, so to speak, the vices of our reality. At the present time, there are more than enough such shortcomings and vices, and therefore the journalists have ample work. It is true, certain representatives of the mass media understand their tasks in a rather unique manner. Some of the journalists may simply announce themselves to a rayon head of administration or to some other prominent leader and demand a certain sum in SK[illegible]d currency], threatening to expose the official. We must note that, for the most part, this method works, since it is the rare leader in our turbulent times who is not mixed up in something. Many people in the republic knew of these facts, but preferred to keep quiet about them. And now, finally, the scythe has hit upon a stone.

Two journalists—associates of the newspaper ARY, which in translation means "bee"—showed up at the office of the first deputy head of administration of Masallinskiy Rayon, I. Allakhyarov, and demanded $3,000 American dollars from him. Or else? "There are many shortcomings in your rayon, and we are preparing a series of articles exposing them," was the approximate threat issued by I. Rzayev and T. Suleymanov. Their choice did not fall on Allakhyarov by accident. Ildrym Allakhyarov is a well-known personality in the republic, a businesslike and enterprising man. Several years ago, he leased plots of land which had been abandoned, and after years of hard labor became a rich farmer. Now, he is helping the head of administration—who, we might add, is also a former journalist, an associate of the Moscow TASS, Teymur Akhyayev—to implement rural economic reform.

...Allakhyarov knows the price of an earned kopek, and therefore will not give it away to anyone for a how-do-you-do. He also has no piety and no fear of the center, because he is a free man, and his own master. In short, unlike the leaders of neighboring rayons, who preferred to "buy off" the journalists just so they do not get the sharp end of the pen, T. Akhyayev and his deputy developed an operation to expose the extortionists. Ildrym told the journalists that he agrees to meet their demands, but he asked them to come back later, so that he could collect the required sum. The money—$400 and 1,500 manats—was prepared and marked. The prosecutor's office and the police were notified. When the journalists placed the bribe in their pockets, expressing dissatisfaction at the fact that Allakhyarov had prepared so little money, they were caught red-handed. The process of detainment of the unsuccessful blackmailers was video taped and recorded. In general, both journalists confessed to taking the bribe. And now they are facing a lengthy term under Article 170, Part 2 of the Criminal Code of the Azerbaijan Republic. However, the most regrettable thing about this episode is the fact that it has dealt a rather painful blow to the prestige of the independent Azerbaijan press.

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